Telstra

Annual Report 1998

“Business Description and Financial Statements”

The report to shareholders for the year ended 30 June 1998 is provided in two parts:

– Annual Review 1998
– Annual Report 1998

Both parts will be lodged with the Australian Stock Exchange (ASX) and the Australian Securities & Investments Commission (ASIC) and are available on the Internet:

http://www.investor.telstra.com.au

The **Annual Report 1998** is a detailed report prepared to meet Australian statutory reporting obligations. In addition, the information required to fulfil the Form 20-F annual reporting obligations of the United States Securities and Exchange Commission (SEC), has been included in this report.

Terms used in this Report

In this report, the terms ***Telstra***, the ***Telstra Group*** and the ***Company***, refer to Telstra Corporation Limited, a corporation organised under the laws of the Australian Capital Territory, Australia, and its controlled entities as a whole; the expression ***Telstra Entity*** is used to refer to the legal entity Telstra Corporation Limited. ***Telstra***® is a registered trademark of Telstra. The term ***Commonwealth*** refers to the Commonwealth of Australia and the term ***Government*** refers to the Government of the Commonwealth of Australia.

The term ***Shares*** refers to the ordinary shares of the Telstra Entity; ***Instalment Receipt*** or ***IR*** refers to the receipt issued by the Trustee (as defined) evidencing beneficial ownership of a Share pending receipt of the Final Instalment; ADS refers to an American Depositary Share which represents 20 Shares; ADR refers to an American Depositary Receipt evidencing an ADS; Interim ADS refers to an Interim American Depositary Share, which represents 20 IRs; and Interim ADR refers to an Interim American Depositary Receipt evidencing an Interim ADS.

Telstra's fiscal year ends on June 30. Reference in this report to a ***year*** or to a ***fiscal year*** is a reference to the year ended June 30 unless otherwise stated; reference to ***1998*** in this report is a reference to fiscal 1998 and other fiscal years are referred to in a similar manner unless otherwise stated.

All amounts are expressed in Australian dollars (A$) unless otherwise stated.

A Glossary of other terms used is provided to assist with the general understanding of this report. (See Contents page 1).

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This Report and the Annual Review can also be found via Telstra's Investor Relations home page at http://www.investor.telstra.com.au

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Financial Calendar 1998-99

Half-year end	31 December 1998
Half-year result announced	11 March 1999
Ex-dividend share trading starts	22 March 1999
Record date for interim dividend	26 March 1999
Interim dividend paid	30 April 1999
Full-year end	30 June 1999
Annual result announced	26 August 1999
Ex-dividend share trading starts	20 September 1999
Record date for final dividend	24 September 1999
Final dividend paid	29 October 1999
Annual General Meeting	12 November 1999

Note: Timing of events can be subject to change.

Designed by Horniak & Canny, Sydney and Melbourne

Contents - Business Description and Financial Statements

SEC Item[1]		Page No.
Item 1	Exchange Rates	2
	Description of Business	3
	- Overview	3
	- Strategy	3
	- Competitive and Regulatory Environment	4
	- Organisation	4
	- Marketing and Customer Service	5
	- Products and Services	6
	- Multimedia	11
	- Global Alliance and International Investments	12
	- Network and Information Technology Alliances	13
	- Networks and Systems	13
	- Special Projects	16
	- Employees	16
	- Competition	18
	- Regulation	20
Item 2	Description of Property	27
Item 3	Legal Proceedings	28
Item 4	Control of Registrant	30
	- Distribution of Instalment Receipt Holdings	30
	- Twenty Largest Instalment Receipt Holders	30
	- Relationship with the Commonwealth of Australia	30
Item 5	Nature of the Trading Market	32
Item 6	Exchange Controls and Other Limitations Affecting Security Holders	32
Item 7	Taxation	35
Item 8	Selected Financial Data	39
	Statistical Data	41
Item 9	Management's Discussion and Analysis of Financial Condition and Results of Operations	42
Item 9A	Quantitative and Qualitative Disclosures about Market Risk	58
Item 10	Directors and Officers of Registrant	59
	Corporate Governance	62
Item 11	Compensation of Directors and Officers	63
Item 16	Use of Proceeds	63
	Report by Directors	64
Items 18 & 19 [2]	Financial Statements	69
	Statement by Directors	149
	Independent Audit Reports	150
	Occupational Health and Safety	152
	- Occupational Health and Safety (Commonwealth Employees) Act 1991	152
	- Safety Rehabilitation and Compensation Act 1998	152
	Freedom of Information	153
	Glossary	154
	Five Year Financial Summary	156

[1] This document includes the disclosure requirements of the US Securities and Exchange Commission (SEC) and will be lodged with the SEC as an Annual Report on Form 20-F. This column lists the item numbers required in Form 20-F and included herein.

The following items are omitted:

- Part I, Item 12: Options to Purchase Securities from Registrant or Subsidiaries; omitted as it is not applicable.
- Part I, Item 13: Interest of Management in Certain Transactions (refer Items 1 and 4).
- Part II, Item 14: Description of Securities to be Registered; omitted as not applicable.
- Part III, Item 15: Defaults upon Senior Securities; omitted as there have been no defaults.
- Part III, Item 16: Changes in Securities and Changes in Security for Registered Securities; omitted as there have been no changes.

[2] All schedules have been omitted since they are not required under the applicable instructions or the substance of the required information is shown in the financial statements. There are no exhibits.

Exchange Rates

Telstra Corporation Limited publishes its consolidated financial statements in Australian dollars (A$ or $). Unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in A$. For the convenience of the reader, this report contains translations of certain Australian dollar amounts into US dollars (US$) at a specified exchange rate (as at 30 June 1998). These translations should not be construed as representations that the A$ amounts actually represent such US$ amounts or could be converted into US$ at the rate indicated. Unless otherwise stated, the translations of A$ into US$ have been made at the rate of A$1.00 = US$0.6208.

The following table sets forth, for the periods and dates indicated, information concerning the rates of exchange of A$1.00 into US$ based on the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York.

	US$ per A$1.00			
Year Ended 30 June	At Period End	Average Rate[1]	High	Low
1994	0.7310	0.6926	0.7438	0.6450
1995	0.7108	0.7412	0.7778	0.7108
1996	0.7856	0.7627	0.8026	0.7100
1997	0.7550	0.7814	0.8180	0.7455
1998	0.6208	0.6805	0.7537	0.5867

(1) *The average of the Noon Buying Rates on the last day of each month during the year.*

Fluctuations in the A$ to US$ exchange rate will affect the US$ equivalent of the A$ price of the Shares and the Instalment Receipts (IRs) on the ASX and, as a result, are likely to affect the market price of Telstra's American Depositary Shares (ADSs) and Interim ADSs in the United States. Such fluctuations would also affect the US$ amounts received by holders of ADSs and Interim ADSs on conversion by the Depositary or Interim Depositary, as the case may be, of cash dividends paid in A$ on the Shares and the IRs underlying the ADSs and Interim ADSs, respectively. In addition, such fluctuations will affect the amount of the Final Instalment with respect to the ADSs, due on 17 November 1998, which will be the US$ equivalent of the Final Instalment based on the then-prevailing exchange rate.

Item 1: Description of Business

Overview

Telstra Corporation Limited (referred to as the Telstra Entity) and its controlled entities collectively referred to as Telstra (or the Telstra Group or the Company), is Australia's principal telecommunications company. Telstra offers a broad range of telecommunications and information services and is permitted to compete in all telecommunications markets throughout Australia. The Company's principal activities include providing telephone exchange lines to homes and businesses, supplying local and long distance telephone calls in Australia and international calls to and from Australia, supplying mobile telecommunications services and providing a comprehensive range of data, Internet and on-line services and, through its affiliates, pay television. The Company is also the principal provider of directory services in Australia.

Telstra is the largest mobile telecommunications company in Australia, with a national digital network covering the area in which 94 per cent of the Australian population resides and international roaming for its digital service in 55 countries. Australia is one of the leading mobile telecommunications markets in the world with approximately 28 per cent of the population owning a mobile telephone as at 30 June 1998. At this time, the Company had an estimated 56 per cent share of the Australian mobile telephone market, with over 3 million MobileNet® customers. Telstra is also a leader in mobile telecommunications technology. For example, it was the first mobile telecommunications company in the world to offer, on a commercial basis, Global System for Mobile Communications (GSM) based Internet access via mobile telephones.

The markets in which the Company operates have undergone significant liberalisation in recent years as Australia has moved towards open competition. Telstra has been subject to competition in the national long distance and international telephone service markets since 1991 and in the mobile telephone service market since 1992. On 1 July 1997, Australia's telecommunications markets were opened to full competition, with no limit on the number of telecommunications Carriers that may enter the market. As this open-market environment has only recently come into existence, there is uncertainty as to how competition will develop and the effect that it will have on the Company. While this changing environment has presented, and will continue to present, significant challenges for Telstra, the Company has implemented strategies to address this evolving regulatory and competitive environment. Telstra believes that today's open market environment provides new opportunities for the Company to respond to competitive pressures. For example, Telstra now has greater freedom to develop product packages and pricing plans tailored to meet the specific needs of particular customer segments.

Strategy

Telstra's vision is to enhance its position as the leading telecommunications and information services company in Australia and to become a leading provider of such services in the Asia-Pacific region. To realise this vision, increase shareholder value and prepare for competition, the Company has adopted a four-part growth strategy which has been in place since 1992. This strategy entails:

- ***Optimising returns from traditional telecommunications products and services in Australia***

  Telstra is implementing ways to use its assets more efficiently, enhance its extensive distribution capabilities and improve productivity in the delivery of its traditional services. It has also taken action to improve marketing and sales, control costs and enhance customer service. Initiatives include re-organising its business units to serve customer segments more effectively and introducing new products.

- ***Developing and delivering value-added telecommunications, on-line and content services***

  To exploit the convergence of telecommunications, computing and media technologies, Telstra is moving further into value-added and content-based services, in some cases through joint ventures. This strategy has been a part of Telstra's move into major Broadband initiatives. This strategy includes: developing the Integrated Services Digital Network (ISDN) as a value-added alternative to basic access; delivering pay television and on-line services; packaging solutions for fixed, mobile and Internet services; and customising virtual private network solutions for large customers. To complement Telstra's expertise, the Company has established joint ventures with The News Corporation Ltd (News Corporation) for pay television, with IBM Australia Ltd (IBM Australia) and Lend Lease Corporation Limited (Lend Lease) for network and information technology services, and is working with other partners and suppliers to provide a range of on-line services in legal information, finance and travel.

- ***Transforming corporate culture and improving productivity***

  Telstra is transforming its corporate culture and improving productivity with the objective of lowering its cost base relative to revenue and positioning itself for competition. This involves continuing to change to meet evolving customer requirements, making major changes to work practices and improving management accountability and commercial discipline. The Company is also redeploying and reducing its workforce and outsourcing where appropriate. Telstra has invested substantial resources over the past several years to develop technologically advanced infrastructure and systems. This is expected to result in reduced labour costs, and improve operating flexibility and service reliability.

- ***Extending global scope***

  Telstra is focused on increasing its global scope through directly investing in selected markets and serving wholesale and multinational customers. The Company's expertise in providing fixed and mobile telecommunications services creates significant growth opportunities in the Asia-Pacific region. Telstra has established businesses in several countries, including Vietnam, Indonesia and India.

Item 1: Description of Business

In an increasingly demanding global market, Telstra is strengthening its ability to provide seamless delivery of products and services to internationally oriented companies. Telstra has recently reviewed its international strategy. As part of this, Telstra is to expand its international Points of Presence (PoPs) in key target markets, with a focus on capturing increased revenues from multi-national corporations (MNCs). The planning and approval for the first PoPs in Japan, Korea, Hong Kong, Europe and the United States is complete and the establishment of businesses is underway. The increased focus on international PoPs has, in part, been precipitated by significant growth in Telstra UK Limited (Telstra UK) and Telstra (New Zealand) Limited, (Telstra New Zealand). To further strengthen its global reach Telstra is a member of a number of international alliances. It is a foundation member of Infonet Inc. and it is also a current member of WorldPartners Company (World Partners). In July 1998, AT&T Corp (AT&T), the largest equity participant in WorldPartners, and British Telecommunications plc (BT) announced the formation of a new alliance and AT&T indicated that WorldPartners, in its current form, will not be continued past December 1999. Continued volatility in international alliance relationships puts this area of activity under regular review. Telstra is continuing to explore arrangements to enhance its ability to support MNCs.

Competitive and Regulatory Environment

On 1 July 1997, the Australian telecommunications regulatory regime was further liberalised to allow for open competition. While previously there was no limit on the number of providers of telecommunications services, Government policy limited the number of Carriers. The new legislation fosters increased competition in the industry by removing this limit and places greater emphasis upon industry self-regulation and commercial negotiation. As at 30 June 1998, there were 21 licensed Carriers, including Telstra. To date, new competitors have been most active in capital cities. The overall regulatory framework is now overseen principally by the Australian Competition and Consumer Commission (ACCC) and the Australian Communications Authority (ACA).

Telstra will continue to be subject to competition in the provision of mobile telecommunications, national long distance telecommunications, international telephone, video and data services, and faces greater competition in markets such as basic access and local calls where there has previously been relatively limited competition. Telstra expects that there will be many new competitors in its markets and that new and existing competitors will develop telecommunications infrastructure, services and new products based on access to Telstra's own services and facilities.

While the ACCC plays a major regulatory role in this area, the new regulatory environment encourages commercial negotiation between Carriers before disputes are referred to the ACCC. Telstra has reached interconnect agreements with a number of Carriers in relation to a wide range of areas, including Public Switched Telephone Network (PSTN), mobiles, leased transmission, resale and Internet. The regulatory environment is discussed in detail later under Item 1.

Organisation

In order to have a strong customer focus, Telstra is organised into the following principal strategic business units and corporate centre functions:

Strategic Business Units

- ***Commercial & Consumer*** is responsible for sales and service delivery to more than seven million residential and small business customers as well as management of the Company's operator assisted services and payphones.

- ***Business & International*** is responsible for sales and services to larger businesses, the Commonwealth, State and Territory governments. In addition, Business & International manages the Company's satellite and radio services, global business services, international operations and international joint ventures.

- ***Products & Marketing*** is responsible for Company-wide product management for access and local calling services, long distance and intelligent network services, mobile services, customer premises equipment, Internet data services and interconnect services.

- ***Network Technology Group & Multimedia*** is responsible for the planning, design, construction and operation of the Company's domestic, international, fixed and mobile telecommunications networks and associated systems required to deliver the Company's products, services and customer support. This unit is also responsible for technology strategy, vendor relationships and selection, and research and development within the Company. The unit also manages the Company's pay television interests which are conducted through the FOXTEL joint venture (a 50/50 partnership with News Corporation) as well as managing the Company's joint venture interests in Atlas Travel Technologies Pty Ltd (Atlas), Lawpoint Pty Ltd (Lawpoint), Advantra Pty Ltd (Advantra), IBM Global Services Australia Ltd (IBMGSA) and the Company's 75 per cent owned directory services controlled entity, Pacific Access Pty Ltd (Pacific Access).

- ***Carrier Services Group***, formed on 1 January 1998, is responsible for managing Carrier and service provider customers and suppliers in Australia and overseas and aims to be the preferred wholesale supplier of domestic and international telecommunications products and services to this customer segment. This unit is responsible for negotiating arrangements for delivering call and data traffic into and out of Australia.

Commercial & Consumer, Business & International and ***Carrier Services Group*** are responsible for sales and services to the Company's customers. Telstra reinforces its strong customer focus with company wide product management from ***Products & Marketing***. This group works actively with the direct sales divisions and with ***Network Technology Group & Multimedia*** to identify customer segment needs, introduce new products and services, develop pricing and packaging plans, implement distribution strategies, manage product life cycles and reduce product unit costs.

Item 1: Description of Business

Corporate Centre Functions

- ***Finance & Administration*** provides corporate policy and support functions across Telstra's strategic business units, including finance, audit and risk management, treasury operations, legal counsel, corporate secretarial functions, corporate strategic planning, investor relations and other corporate services.

- ***Regulatory & External Affairs*** manages regulatory strategy and operations, corporate and public affairs, government relations, consumer affairs, stakeholder and issues management.

- ***Employee Relations*** manages personnel, industrial relations, health and safety, training and leadership development programmes.

Marketing and Customer Service

Telstra's marketing and customer service strategy is focused on serving each customer with seamless delivery of products and services. With a broad range of telecommunications expertise, Telstra aims to provide a "one-stop shop" for large and small customers. The Company has built one of the strongest brands in Australia which has been supported by a national advertising and promotion campaign with the theme Making Life Easier™ to enhance customer loyalty and foster retention.

Telstra has an ongoing programme of initiatives to improve customer service, product quality and assurance. Initiatives include the modernisation and digitalisation of its networks, the implementation of its integrated information and billing systems, and the implementation of new work practices. These initiatives are expected to improve the Company's speed to market, cost structure and ability to offer a broad range of customer focused solutions. In addition, the Company's Making Life Easier™ theme is being integrated into the approach of sales and customer support staff. Segment specific campaigns are also being developed including the "People with Initiative" slogan which was launched early in calendar 1998 for the small business market.

The Company's significant customer base gives it the opportunity to market a broad range of products and services throughout Australia. Telstra segments its customer base to serve the differing needs of its customers more effectively. For each segment, the Company seeks to customise its advertising and promotion, customer contact and sales channels and product design and support. Telstra incorporates segment information into its sales systems so that each customer contact can be tailored to the needs of that particular customer. To generate new sales and reach niche customer segments, Telstra intends to rely less on mass media, emphasising instead direct marketing and sales promotions and an increasing use of new media, such as the Internet. Telstra has also established two co-branded Visa card programmes with Australia and New Zealand Banking Group Limited to enhance customer loyalty and retention and promote Telstra's products and services. These programmes are the Telstra Visa card and the Qantas Telstra Visa card. Qantas Airways Limited is a partner in the latter programme. Approximately 1.35 million cards, in total, have been issued under these programmes.

Residential Customers and Small Businesses

Telstra segments its approximately 6.9 million residential accounts and approximately 550,000 small business accounts into six segments: young adults, establishers (young homemakers), mature households, home office customers, masters (aged 55 and older) and small businesses. The Company tailors its product and service packages based on the key life stage drivers and associated telecommunications needs of each of the five residential segments. The Company supports these packages with an advertising strategy designed to stimulate usage.

Telstra operates a sales and service network that, in fiscal 1998, received approximately 23.5 million calls and is responsible for sales of products and services, customer service for general and billing enquiries, credit management, order processing, service removals and transfers and referrals for third party products. The Company has enhanced its sales support systems to assist sales representatives in pursuing marketing opportunities during customer enquiries. Telstra also conducts telemarketing campaigns, including promotions targeting particular products, geographic areas and customer segments. The Company's commission-based field sales force markets solution based products and services to small businesses and residential customers.

Medium and Large Businesses and Governments

Telstra provides medium and large businesses and state and federal governments with a comprehensive range of products, services and customer-driven solutions, from basic services to complex voice and data networks and totally managed solutions. Telstra has segmented its medium and large business and government customer base by size and industry to help identify their key business drivers and telecommunications needs and to develop appropriate product packages.

Telstra's account managers are supported by telesales professionals, engineers, communication consultants and technical design specialists. This team is backed by customer ordering and provisioning, billing and service assurance systems specifically developed to meet the needs of this sector. In addition, Telstra uses a variety of indirect channels such as dealers, Service Providers, equipment suppliers and other alliances and partners to ensure business and government customers' needs are met in the most cost effective manner.

International Businesses

Telstra offers multinational corporations and small and medium-sized exporters a single source of telecommunications services. The Company has sales and technical professionals located in New Zealand, the United Kingdom, the United States, Hong Kong, China, Vietnam, Singapore, Japan, India and Indonesia. Telstra has switching facilities in the United Kingdom and New Zealand and proposes to extend these to the United States, Hong Kong, Japan, Korea and Europe within the next two years.

Item 1: Description of Business

Mobile Telecommunications Customers

Telstra's mobile telecommunications marketing reinforces the Company's strong MobileNet® brand. The Company uses both internal and external sales channels. The same internal sales networks that target the Company's medium and large business customers also sell MobileNet® services. In addition, Telstra owns and operates 70 shops nationwide which sell a range of consumer telecommunications products, including mobile telecommunication services. External channels consist of third party retail stores, dealers and independent contractors. Telstra's mobile telephone products and services are retailed to businesses and residential customers through more than 1,800 outlets nationwide. Telstra also deals with two independent contractors which operate nationally and handle their own billing and customer care, although the customers remain Telstra's customers. Telstra also sets the prices that are charged. Telstra pays the independent contractors a connection commission and a percentage of revenue.

Directory Services Advertisers

Telstra, through Pacific Access, distributes Whites Pages™ directories and Yellow Pages® directories to virtually every household and business in Australia. The Company endeavours to stimulate usage of its directory products through general advertising and promotion (emphasising the directories' ease of use and comprehensive listings), thereby enhancing their value as an advertising medium. Pacific Access is developing, on behalf of Telstra, a range of electronic commerce and Internet services which expand the positioning of Yellow Pages® and White Pages™ directories brands into new advertising and content service mediums.

Pay Television and On-line Services Subscribers

Pay television services are marketed to residential customers in Australia through FOXTEL. FOXTEL packages the programming content, markets and sells the service and supports the customers. FOXTEL engages in a number of marketing initiatives to maximise the market penetration and reduce churn for pay television services, while Telstra operates the necessary customer database and activation systems for the cable system.

The Company markets its on-line services, particularly Big Pond® Internet services, through retail outlets and the Internet.

Wholesale Customers

Telstra has established a dedicated group to serve the specific needs of its wholesale customers. Telstra's wholesale customers include Carriage Service Providers (CSPs) (switched and non-switched) and Internet Service Providers (ISPs). The Company's approach to this customer segment, together with the products and services offered, is driven not only by regulation, but also by the commercial importance of this growing segment. Marketing initiatives undertaken by the Company in general have focused on three key areas: Resellers, interconnection to Carriers, and international inpayment from other Carriers including transit/refile traffic. In particular, Telstra encourages CSPs to acquire a full range of the Company's services, complemented by their own products and services, and to repackage these to increase value to customers. Telstra is also taking steps to enhance the suitability of service for its wholesale customers, including the planned introduction of limited automated access to Telstra's systems and revised billing procedures.

Products and Services

Telstra offers a broad range of telecommunications and information services allowing it to provide virtually all the telecommunications needs of its diverse customer base. The following table shows Telstra's operating revenue by major product and service category for the last three fiscal years and expressed as a percentage of total operating revenue. See Item 9.

	Year Ended 30 June					
	1998		**1997**		**1996**	
	A$m	**%**	A$m	%	A$m	%
Basic access	**1,770**	**10**	1,740	11	1,727	11
Local calls	**2,664**	**15**	2,664	17	2,669	18
National long distance calls	**2,594**	**15**	2,455	15	2,505	16
International telephone services	**1,380**	**8**	1,342	8	1,338	9
Mobile telecommunications services	**2,154**	**13**	1,981	12	1,705	11
Data and text services	**2,097**	**12**	1,883	12	1,574	10
Directory services[1]	**1,013**	**6**	723	5	709	5
Customer premises equipment	**538**	**3**	576	4	611	4
Intercarrier services	**582**	**3**	558	3	485	3
Public payphones	**225**	**1**	248	2	259	2
Other sales and services	**1,802**	**11**	1,266	8	1,134	8
Sales revenue	**16,819**	**97**	15,436	97	14,716	97
Other revenue[2]	**483**	**3**	547	3	523	3
Operating revenue	**17,302**	**100**	15,983	100	15,239	100

(1) 1998 includes the consolidation of Pacific Access into the Telstra Group for the first time.

(2) Other revenue includes interest received/receivable, proceeds from sale of assets/investments, dividends received/receivable and miscellaneous revenue.

Item 1: Description of Business

Basic Access

Telstra provides basic access service to most homes and businesses in Australia. A portion of the Company's basic access service is provided on a rebill basis to Resellers who on-sell such services. Telstra's basic access service consists of the installation, rental and maintenance of connections between a customer's premises and the PSTN for the provision of basic voice, facsimile and Internet services. As such, it excludes enhanced products such as ISDN access and FaxStream® services. Telstra also charges customers for connecting new lines and reconnecting existing lines. A significant amount of cross-subsidisation occurs in favour of rural residential customers because generally the Company charges the same rate to all residential customers.

Residential basic access line growth is driven principally by housing growth and the demand for second basic access lines. Growth in business basic access lines has historically tracked economic growth in Australia. Basic access line growth has been offset, to a certain extent, by the Company's success in encouraging its customers to adopt higher value-added services such as ISDN and FaxStream® services. This migration has been assisted by growth in home offices and increasing customer requirements for integrated voice and data solutions.

Demand for supplementary basic access lines arises from increasing customer convenience requirements, Internet access demand and demand for other services such as dedicated facsimile lines. Although Telstra's ability to promote second lines has in certain cases been constrained by existing capacity, the Company markets second lines in areas where it has capacity available and augments capacity in some areas through the use of technologies such as pair gain systems, line concentrators, fixed radio access and ISDN. Telstra is also investigating technologies such as Asymmetric Digital Subscriber Lines (ADSL) and satellite to enhance capacity to meet retail and wholesale market demand.

Local Calls

Basic access to Telstra's PSTN provides customers with local calling ability and, as a result, the Company currently provides local call service to virtually all of the residential market and a substantial majority of the businesses in Australia. In addition, Telstra provides local call service to Resellers on a rebill and resale basis, with agreed discounts from its retail price. In general, Telstra charges for local calls on an untimed per call basis.

A benefit of the Company's Networks and Systems Modernisation Programme is the upgrade of the PSTN to allow the Company to offer a wide range of advanced network products and services. Telstra is focused on increasing local call volumes by offering customers services which are designed to increase call stimulation. These include complimentary services such as Call Waiting and Call Forwarding and billable services such as Call Conferencing, Voicemail and Calling Number Display.

National Long Distance Calls

Telstra is the leading provider of national long distance services in Australia. In addition to providing service to its residential and business customers, the Company also provides national long distance services to Resellers on a rebill basis.

National long distance calls are generally charged based on duration, destination, time of day and day of week. Charges for fixed-to-fixed calls are calculated on a per second basis (after a call connection fee), except in limited instances, and for fixed-to-mobile calls are charged in A$0.25 multiples. As for local calls, Telstra's complimentary Call Waiting and Call Forwarding services, as well as its billed services, such as Call Conferencing and Voicemail, increase billable minutes.

Telstra offers a variety of short-term special promotions to stimulate volumes and positively influence customers' price value perceptions. National long distance traffic is principally driven by the state of the economy and, particularly in the case of residential customers, by price. As a natural consequence of increased mobile telephone penetration, fixed-to-mobile calls are becoming an increasingly important part of the national long distance market.

Prices have fallen significantly over the last decade, driven by technology improvements and, more recently, competition. Customers have responded with increased calling activity, leading to overall market growth, although competitive pressures continue to affect prices.

International Telephone Services

Telstra is currently the leading provider of international telephone services in Australia. Telstra offers its customers international telephone service to 230 countries and territories. In addition, the Company offers international outbound telephone service to Resellers on a rebill basis. Similar to national long distance calls, international telephone calls are generally charged based on duration, destination, time of day and day of week. Except in limited circumstances, charges are calculated on a per second basis, after a call connection fee.

Telstra's residential customers generated a substantial majority of the Company's international outgoing traffic in fiscal 1998. As a result, outgoing traffic is principally influenced by economic conditions and is price sensitive. Residential customers tend to treat international calls as a discretionary expense more so than they do national long distance calls. The Company uses a variety of marketing initiatives, including price promotions, to stimulate outgoing calls. As prices have fallen, customers have responded with increased calling activity. During fiscal 1998, the three principal destinations of Telstra's international outgoing calls were the United Kingdom, New Zealand and the United States, representing 19 per cent, 15 per cent and 13 per cent respectively, based on international outgoing minutes for settlement purposes. In the same period, the three principal sources of Telstra's international incoming calls were also the United States, New Zealand and the United Kingdom, representing 23 per cent, 19 per cent and 17 per cent of international incoming minutes, respectively. While competition has led to a significant decline in the Company's

Item 1: Description of Business

market share in recent years, it has also stimulated overall market growth and such trends are expected to continue as new competitors enter this market.

An integral part of providing its domestic customers with an international outbound telephone service is Telstra's role in terminating inbound international calls for international Carriers pursuant to bilateral settlement agreements. Consistent with current international convention, Telstra settles its traffic balance payments with other Carriers through bilaterally determined accounting rates. The current international settlements structure has recently come under pressure from initiatives by the United States Federal Communications Commission to lower accounting rates and from increased competition among international Carriers and others. On an aggregate basis, Telstra's payments to international Carriers have exceeded its receipts from such Carriers reflecting the mix of outbound and inbound traffic. As a result, Telstra has advocated lower international accounting rates in order to improve its cost structure.

Telstra also provides international Carriers switched transit services whereby traffic from one country is switched via Telstra's network to another country. In certain circumstances, Telstra acts as an intermediary and charges a transit fee. In other circumstances, Telstra acts as principal and charges fees determined pursuant to international settlement agreements.

Mobile Telecommunications Services

Telstra is the leading provider of mobile telecommunications services in Australia in terms of number of customers and geographical coverage of its services. The Company has a history of technical innovation in the development of new mobile products and provides its customers with a range of information services. Telstra has demonstrated its ability to operate in the highly competitive Australian mobile telephone market, relying on its innovative marketing plans, diverse distribution capabilities and strong MobileNet® brand.

Telstra's mobile telecommunications services include both analogue and digital cellular services, sales of mobile handsets and a wide range of value-added services. Telstra owns and operates both an analogue Advanced Mobile Phone System (AMPS) mobile telecommunications network and a digital GSM mobile telecommunications network. The digital GSM network currently provides coverage for areas in which 94 per cent of the Australian population resides whilst the analogue AMPS provides coverage for areas in which 93 per cent of the Australian population resides. Telstra is continuing to expand digital coverage into regional centres and along highways linking regional centres, and is also focused on improving the depth of coverage, particularly in-building and underground coverage, in major cities.

Analogue Service

Telstra operates the only permitted analogue AMPS mobile telecommunications network in Australia. As required by regulation, however, Telstra sells capacity on its analogue network to Optus Communications Pty Limited (Optus), although the revenue from the provision of these services is recorded as intercarrier services revenue. In addition to mobile voice telephone service, the Company offers analogue customers a number of value-added services including Voicemail, Call Waiting and Call Forwarding. Customers are offered a variety of pricing options which vary depending on committed usage rates. Telstra also generally charges an activation fee. This network is being progressively shutdown as required by legislation. While all metropolitan analogue AMPS sites will close as originally required by 31 December 1999, some non-metropolitan parts of the network may remain open for a maximum further 12 month period. This will be dependent on agreement between Telstra, Optus, Vodafone and the Government.

Telstra will continue to invest considerable resources to migrate its analogue customers to its digital GSM service and, when it is introduced, to the digital service which is to be provided over its new mobiles network. In order to assist this migration, Telstra has developed, and will continue to develop, targeted programmes and offerings for its analogue customers.

GSM Digital Service

Telstra offers GSM digital mobile telephone service that allows customers in the 900 megahertz (MHz) band to send and receive voice and data calls. The Company offers its GSM digital customers the same value-added services that it offers its analogue customers and also provides mobile facsimile and data services. Other digital mobile services include operator assisted paging, operator through connect, short message services, financial and sports information services and international roaming in 55 countries. Telstra believes that these value-added services enhance customer loyalty and satisfaction and improve usage rates.

Telstra offers GSM digital customers different pricing options which vary depending on committed usage rates. GSM digital customers who opt for a higher monthly access fee generally pay a lower overall usage rate. Telstra also generally charges customers an activation fee.

The number of Telstra's GSM digital mobile customers has increased rapidly since the Company introduced GSM digital services in 1993. Telstra attributes this growth to the increasing recognition of the value of mobile service by both business and private users, the coverage and enhanced features of its GSM digital service and the Company's strong distribution capabilities, particularly in retail stores. The growth in GSM digital customers has recently also been positively affected by the Company's efforts to migrate its analogue customers to its GSM digital service. As the penetration of GSM digital mobile services has increased, the Company initially witnessed declining billed minutes per customer. However, this trend has slowed over recent months due to the introduction of a range of initiatives aimed at increasing usage, particularly the increased use of messaging services.

Telstra recently purchased 1800MHz radio spectrum which it will be utilising to expand capacity on its existing GSM networks. The 1800MHz radio spectrum will not be available for use in the metropolitan areas of Sydney, Melbourne, Brisbane, Adelaide and Perth until after 31 December 1999 unless otherwise agreed

Item 1: Description of Business

with the incumbent users of that spectrum. The 1800MHz radio spectrum outside metropolitan areas will not be available for use until after 31 December 2000. Dual band handsets (GSM 900/ 1800) will be required to enable Carriers or customers to utilise the 1800MHz radio spectrum. These handsets are available and will increase in number as new dual band models replace current single band ones.

New Mobiles Network

Telstra is planning to establish a new mobiles network based on digital technology using recently purchased 800MHz radio spectrum. Telstra is evaluating Code Division Multiple Access (CDMA) and Time Division Multiple Access (TDMA) technologies to meet technical and commercial requirements, including their suitability for rural areas. Telstra intends that the new network will operate alongside and complement Telstra's existing GSM products.

Telstra is currently negotiating with major suppliers of the new technologies to meet its technical and commercial requirements and plans to conduct trials of the new network in early calendar 1999.

Data and Text Services

Private Networking & Data Services

Telstra provides a range of private networking and data services which allows customers to transmit and receive data. To provide packaged solutions, Telstra markets these services under the Fractal™ brand using a strategy based on emphasising customer relationships and customer driven solutions, rather than the use of particular technologies. The Company develops customer solutions by integrating networks and systems, co-ordinating internal and external support channels, and utilising partners and international alliances. The Company also provides voice services through dedicated leased lines and virtual private network solutions. Telstra is realigning the prices of its private networking and data services to maximise the use of its existing network infrastructure and to minimise customer churn on the basis of price both across the Company's services and to competitors.

Dedicated Network Product

Telstra provides point-to-point dedicated leased lines, on a managed or unmanaged basis, which business and government customers can use to assemble their own private networks or which Resellers can use to establish their own telecommunications networks in order to offer telecommunications services. Telstra also offers voice-grade dedicated lines although the Company is encouraging these customers to migrate to alternative solutions.

VPN Services

The Company offers virtual private network solutions which use network intelligence and infrastructure to provide business customers with the functionality of a dedicated private voice network. Virtual private network solutions provide customers with a wide range of access points, tailored billing and reporting, network features like call barring and short-code dialling, network management and price discounts.

LAN/WAN Services

Telstra offers a set of local and wide area network solutions. These solutions address a number of market dynamics: the shift from dedicated to switched data services; the demand for higher speed services and packet data transmission; the shift towards Internet protocol environments; and the increased networking of computers. These solutions are built with advanced data switching technologies, including frame relay, Asynchronous Transfer Mode (ATM) and related technologies.

Transaction Services

Telstra offers several low speed, national, packet switched data services (over a multiprotocol platform, one of which is X.25) designed mainly for transaction services. For example, Telstra provides end-to-end connections for electronic funds transfer applications. The Company also offers dial-up and leased line transaction services across several technologies, including ISDN. The current transaction platform is being replaced which will result in a more flexible service and reduced costs.

International Dedicated Leased Lines

Telstra provides international leased lines to corporations and providers of telecommunications services to enable them to assemble their own international dedicated private networks. These are offered at a range of speeds. In addition, the Company provides, with the assistance of its international partners, end-to-end global managed network services particularly to its multinational corporate customers.

ISDN Services

Telstra offers ISDN access services for residential and business customers which require greater bandwidth than that provided by traditional basic access service. ISDN enables customers to make telephone calls, send high-speed data or hold video conferences, separately or simultaneously, over a single service. As part of the Company's Networks and Systems Modernisation Programme, Telstra is integrating ISDN service capability into its PSTN, rather than providing such service via an overlay network, making the service more widely available at lower prices and cost.

Text Services

Telstra's text services consist principally of facsimile products and services marketed under the FaxStream® brand. The Company also offers enhanced FaxStream® service features such as the ability to hold and store facsimiles, retrieve stored facsimiles, and forward facsimiles to alternative locations. In addition, the Company's FaxStream® Duet service provides customers with multiple numbers on a single access line. The Company charges the same line rental fee for its FaxStream® service as it does for its basic PSTN access service. Additional fees are charged for the use of enhanced features. The facsimile market in Australia has been characterised by an increasing number of small business and residential users, partially offset

Item 1: Description of Business

by high volume customers migrating to alternative technologies, such as email.

Directory Services

Telstra is the principal provider of directory services in Australia, offering printed White Pages™ directories and Yellow Pages® directories, voice directory services, electronic and multimedia services and a portfolio of specialist products and services. The Company provides these services through Pacific Access and continues to develop its directories business through the introduction of new value-added information products and services through multiple media sources. Internationally, the Company has pursued a number of opportunities, including the purchase of a business in Singapore with directory interests in Vietnam, a specialist directories products business in the United States and a previous directory publishing venture in Laos, designed to gain experience in Asian based operations.

Telstra's printed directory portfolio includes six metropolitan, 49 regional and 17 local Yellow Pages® directories and White Pages™ directories, a national business directory, a directory for the hearing impaired and a corporate directory. In addition to printed products, the Yellow Pages® directories portfolio also includes various voice products, including recorded information and facsimile response services, Yellow Pages® Direct on which advertisers can purchase "priority listings", and multimedia services, including publication of the Yellow Pages® directories on the Internet which provides every business in Australia an Internet address, and various Internet advertising options. The Company operates two Internet sites, Yellow Pages® and White Pages™, that are regularly placed in the top 10 Australian sites. In addition, the Company operates the Australasian Alta Vista mirror site, licensed from Compaq Computer Corporation which is also regularly placed in the top 10 Australian sites. Business customers are able to list their business details in the Yellow Pages® directories free of charge, or purchase premium advertising and promotional space. The White Pages™ directories portfolio also includes various multimedia products, including Internet and CD ROM products. Each telephone subscriber receives one free listing by name, address and telephone number in the White Pages™ directories and can purchase special listings or pay for an unlisted number.

In addition to its core products, Telstra offers multimedia services, including its new product of on-line shopping connected to SureLink™ secure transaction processing. Telstra provides customers with value-added services and businesses with customer segmentation capabilities and new advertising media. These services include complementary software that provides multilayered directory information, databases for in-vehicle navigation systems, Internet advertising alternatives and international gateway services enabling offshore directory services. Telstra also offers services which assist commercial customers in business planning through the provision of demographics, mapping services and other marketing information segregated by geographic area.

Customer Premises Equipment

Telstra participates in the following segments of the market for customer premises equipment: (i) sales, rental, installation and maintenance of Telstra branded small business telephone systems; (ii) installation and maintenance of PBX telephone systems; (iii) sales of Telstra branded telephones, answering machines, facsimile machines and other telecommunications products; and (iv) the Company's Universal Service Obligation to make available on request, on a rental basis, a customer's first telephone. Telstra purchases from third party suppliers all of the equipment that it sells or rents. Customer premises equipment services have not been profitable for the Company but ongoing cost reduction initiatives have moved the portfolio closer to profitability over the years. The Company has been examining outsourcing and strategic partnership opportunities for parts of its customer premises equipment business and, shortly after fiscal 1998, Telstra sold its Commander® small business systems business into a joint venture company, PlesTel Pty Ltd (PlesTel), owned by Plessey Asia Pacific Pty Ltd (70 per cent) and Telstra (30 per cent).

Intercarrier Services

Telstra provides a range of services to Carriers. These include the provision of interconnection, transmission services (including leased lines) and wholesale provision of certain of its retail products and services (including basic access, local calls, national long distance and international telephone service and mobile telecommunications services). The interconnection services provided to Carriers include the provision of origination and termination of calls (both to and from fixed and mobile networks), preselection services, switched trunk and transmission services, and access to certain network facilities and established points of interconnection. Telstra provides systems services such as systems maintenance and billing system services to support the provision of Intercarrier services.

Telstra is also required to provide analogue mobile telecommunications services on a resale basis including for limited periods to certain competitors who, along with Telstra, were successful in acquiring radio communications spectrum in the 800MHz bands at recent auctions.

The regulatory regime allows Carriers, CSPs and Content Service Providers to seek regulated access to certain services where the ACCC has considered regulated access would be in the long term interest of end users.

Public Payphones

Telstra is the principal provider of payphones in Australia. As at 30 June 1998, the Company operated 36,892 public payphones. A further 43,278 coin-only payphones were operated by third parties under equipment sale or lease arrangements with Telstra. The Company's Universal Service Obligation requires it to make public payphone service reasonably accessible throughout Australia, including in certain non-metropolitan and rural areas. Approximately half of the Company's public payphones are in these areas.

Telstra has commenced upgrading its public payphones to accept "smartcards" with embedded computer chips. The upgrade programme also includes the installation of a new centralised system to manage the Company's payphone network and to reduce the risks of misuse, fraud and physical attack downtimes.

Item 1: Description of Business

The smartcards have a reload function and are expected to be capable of supporting electronic cash payments through other vending machines.

While the Company has incurred some costs and loss of revenue as a result of vandalism to the new payphone terminals, this has not been inconsistent with past experience in the payphones area.

Other Sales and Services

The Company's other sales and services principally include intelligent network products and services, operator-assisted services and Internet services. Other sales and services also include the connection of pay television customers, commercial works, ship-to-shore services, mobile data, video and teleconferencing and audio and video services.

Intelligent Network Services

As part of its strategy to pursue higher margin value-added products and services, Telstra has developed a range of intelligent network products and services, including inbound and call centre services, personal communications services, payment call services and global access cards. Telstra's strategy is to provide customers with seamless access to flexible packages of products and services using network and distributed intelligence.

Inbound call services include Freecall™ 1800, a reverse charge call service used widely by large and small businesses to extend their market reach and attract sales. Telstra also offers Priority® One3 numbers, used by larger businesses and franchise operations for service calls for which inbound callers only pay local call rates irrespective of the source of the call. Priority® One3 services provide intelligent, caller dependent routing to the nearest business location, enabling efficient delivery of customer service. Priority® 1300 services provide features equivalent to Freecall™ 1800 but with local call rates to the inbound caller and lower number charges than Priority® One3 to the lessee. Call centre products include network based solutions aimed at meeting business call centres' needs, and include interactive voice response and on-line customer selection menus. Telstra also offers "190" payment services for voice and facsimile and is developing its managed services business to provide facilities managed services to its business customers.

Telstra also uses network intelligence to support a growing range of virtual access solutions for residential and business customers. These include Telstra's personal communications service, Telepath® One Number. Telepath® One Number permits a customer to be reached on a single telephone number, by redirecting incoming calls to other fixed network or mobile numbers identified in advance by the customer. Telstra also offers a range of products that offer alternative billing options, including prepaid cards (Phoneaway®), automated reverse charging (Homelink®) and calling cards (Telecard™).

Operator Assisted Services

Telstra's Operator Assisted Services, operating out of 63 call centres in Australia, responded to over 515 million calls in fiscal 1998. Telstra has also introduced an innovative new product called Telstra Call Connect ("12456") which connects customers directly upon request.

Internet Access Services

Telstra offers a range of Internet access products and packages under its Big Pond® Home and Big Pond® Business brands. The Company also offers Big Pond® Direct service, which provides retail and wholesale customers with dedicated Internet access within Australia at varying transmission rates. In addition, Telstra provides Big Pond® Intranet which enables customers to construct their own intranets.

Telstra has also begun to offer high speed cable Internet service to residential and business customers over the Broadband Network. For corporate customers, Telstra offers direct high speed national and international Internet connections.

Telstra, through its wholly-owned controlled entity, On Australia Pty Ltd (On Australia) provides the Big Pond® Home Internet Service. Since fiscal 1997, On Australia has experienced significant growth levels both in terms of subscriber numbers and revenue. The growth of the Internet represents a significant opportunity for Telstra to deliver existing and future services to an on-line user group. Big Pond® will be providing members only, premium content from ninemsn Pty Ltd, a joint venture between PBL Online Pty Ltd and Microsoft Corporation, to continue the provision of additional valued services.

Multimedia

Pay Television

The Company's pay television interests are managed through FOXTEL which offers home video entertainment services including pay television services. FOXTEL currently offers over thirty television channels, including six movie channels, two sports channels, three children's channels, three documentary channels, a 24-hour comedy channel, seven general entertainment channels, news, business and information on six channels, home shopping and re-transmission of the five existing free-to-air national and commercial television networks. FOXTEL has entered into various programme supply arrangements, including with certain minimum subscriber guarantees. These arrangements were revised during fiscal 1998. In some cases the programme supply arrangements impose minimum subscriber commitments and contingent liabilities jointly and severally upon Telstra and News Corporation. As at 30 June 1998, Telstra's share of these contingent liabilities totalled A$1,064 million.

FOXTEL has experienced relatively high customer churn rates, although Telstra expects these levels to continue to fall as a result of marketing initiatives to retain customers and improved programming as the industry matures. During fiscal 1998 Telstra invested a further A$92 million and incurred losses of A$83 million in connection with FOXTEL.

Under arrangements between Telstra, News Corporation and FOXTEL, Telstra is the exclusive long-term supplier of cable distribution services for FOXTEL's pay television services in

Item 1: Description of Business

Telstra's cabled areas and receives a share of FOXTEL's pay television revenues. Distribution services used for the delivery of certain pay television services are supplied by Telstra exclusively to FOXTEL, unless otherwise required by law. Telstra can independently, or through partnerships and alliances, provide a broad range of communications, data and information services using Telstra's Broadband Network. FOXTEL is permitted to provide, in addition to most pay television services, a limited range of information and other services, such as certain forms of home shopping, but excluding telephony and on-line services. Telstra and News Corporation have committed generally to confine their involvement in the provision of pay television services in Australia to participation in FOXTEL and News Corporation has made certain long-term programming commitments to FOXTEL.

On 20 June 1997, Telstra, News Corporation and Publishing and Broadcasting Limited (PBL) agreed to work together towards the rationalisation of the pay television industry for the benefit of FOXTEL. Under these arrangements, PBL has the opportunity to equalise its pay television interests with News Corporation. Telstra may, at its option, join in this equalisation.

On 25 July 1997, Telstra, News Corporation and FOXTEL agreed to terms on which the Broadband Network rollout obligations would be satisfied by passing 2.5 million homes by 31 December 1997 and this was achieved by the due date. Under these arrangements, Telstra also agreed to pay News Corporation A$60 million and agreed to a reduction in the revenue share that it receives from FOXTEL for providing Broadband transmission services for the next seven years. The net present value of the contractual obligation for agreed fixed dollar amount reductions in revenue share at 30 June 1997 was approximately A$300 million, discounted at 9.7 per cent per annum. In the event that there is insufficient revenue share in a given month to meet the amount of the reduction, Telstra is required to fund the difference to FOXTEL. By the end of fiscal 1998, the balance remaining under the revenue share foregone arrangement was A$259 million. Payments of A$37 million were made to News Corporation during fiscal 1998 for the cable rationalisation agreement with the balance of A$23 million paid in July 1998.

On-Line Services

Telstra offers customers on-line, content and web hosting services. Telstra's Big Pond® range of Internet services is designed to meet the needs of residential and business customers, with offerings ranging from basic dial up access to sophisticated Intranet solutions for multinational corporate customers. The Company also offers a range of pricing and access plans to home users and small businesses.

eCommerce is expected to create a new paradigm for the way businesses conduct their commercial transactions. A number of analysts have predicted significant growth in sales over the Internet and Telstra expects that the development of secure and effective eCommerce services will underpin this direction. Telstra is cognisant of the opportunities provided by eCommerce and has developed products under the SureLink™ brand, to support the needs of business in the marketplace.

Telstra has developed a number of on-line content services and applications, including Internet versions of the White Pages™ directories and the Yellow Pages® directories. Through its own products, partnerships and alliances, Telstra offers a range of on-line services in legal information, finance and travel. The Broadband Network and alternative technologies offer the capacity for a new generation of services and applications in commerce, travel, education, government and leisure.

Telstra continues to offer a range of conferencing and interactive voice response services designed to meet the needs of businesses and individuals. ConferLink® is a leading edge telephone and video conferencing service. The ConferLink® conferencing services have been enhanced with increased capacity and upgraded service delivery systems.

Global Alliance and International Investments

Global Alliance

A component of Telstra's strategy is to provide the seamless delivery of products and services to MNCs. Telstra is pursuing a number of options to achieve this goal. Firstly, Telstra has established sales and service offices across Asia, the United States and Europe to offer a single source of telecommunications services to its multinational customers. Secondly, it has established operations in Europe and New Zealand and it intends to establish further operations in the United States and Asia.

Telstra has been a non equity member of WorldPartners. Equity members included AT&T, KDD America Inc. (KDD), SingTel USA Inc. (SingTel) and Unisource WPC Inc. (Unisource) for some time. On 18 June 1998, following lengthy negotiations, Telstra announced it had purchased a 10 per cent equity interest in WorldPartners, a partnership which provides management and a clearing house function for telecommunications services provided to MNCs on infrastructure owned by the member companies. Telstra paid US$20 million (A$33 million) for this interest. Subsequently, in July 1998, AT&T, the largest equity participant in WorldPartners, announced the venture would not be continued beyond calendar 1999 and that it would form a new alliance with BT. Following AT&T's announcement, discussions are being undertaken by Telstra with all organisations involved, including AT&T, BT and the other owners of WorldPartners, to understand better the intentions of each and the likely opportunities for Telstra going forward. These discussions have been constructive to date. Telstra is continuing to explore arrangements to enhance its ability to support MNCs.

International Investments

Telstra expects to continue to pursue opportunities which enhance long term value and which leverage off the Company's presence in the Asia-Pacific region. These will include establishing facilities based PoPs in Asia, Europe and the United States and investing in mobile communications, directories and telecommunications infrastructure in those regions.

In Vietnam, Telstra has invested approximately US$171 million under a 10 year partnership with the Vietnamese Government Carrier, VNPT, to expand and upgrade Vietnam's international network. Telstra has a similar contract to upgrade the

Item 1: Description of Business

international network of Cambodia, and operates a directories business in Vietnam. The Company is negotiating with VNPT to expand and upgrade the domestic network in West Ho Chi Minh City in Vietnam.

Telstra's Modi Telstra (Private) Limited joint venture operates a digital mobile telephone network in Calcutta and Mobitel (Private) Limited, a 60/40 joint venture between Telstra and Sri Lanka Telecom, operates a mobile telephone network in Sri Lanka. Telstra Vishesh Communications Ltd, a joint venture with India's VSNL, launched India's first meshed satellite based voice and data network. Telstra is also building a network management system in southern India for the Department of Telecommunications.

The extent of Telstra's exposure, through its international investments, to the current Asian economic downturn has been largely limited to two of its investments in Indonesia.

Telstra's largest Indonesian investment is PT Mitra Global Telekomunikasi Indonesia (MGTI) a Build-Operate-Transfer venture to operate existing regional basic services and to install 400,000 extra lines in Central Java by 31 March 1999. Telstra has a 20 per cent shareholding in MGTI. Telstra's funding (both debt and equity) up until 30 June 1998 was A$58 million. Telstra has written down the investment to A$Nil with A$46 million debited to reserves and the remainder against profit and loss. Telstra has a further A$42 million equity commitment plus a number of contingent liabilities in regard to MGTI. The contingent liabilities relate to equity calls and performance guarantees. Telstra continues to actively monitor its investment in MGTI. See Note 20 to the Financial Statements.

Telstra also has an interest in Indonesia through its 75 per cent shareholding in PT Jastrindo Dinamika (PT Jastrindo), a trunked private mobile radio company holding a national licence, currently operating in Greater Jakarta, Semarang and Surabaya. Telstra's funding in PT Jastrindo has been written down to A$Nil after providing for losses of A$12.4 million comprising mainly intercompany loans. Telstra is currently negotiating to sell its interest in PT Jastrindo.

Network and Information Technology Alliances

In July 1997, Telstra entered into an alliance with IBM Australia and Lend Lease to position Telstra strategically to take advantage of growing opportunities in Australia and the Asia-Pacific region as information technology and telecommunications markets converge. The alliance is expected to reduce Telstra's own long-term information technology costs. As part of the alliance, Telstra acquired a 26 per cent equity interest in IBMGSA which is also owned by IBM Australia (51 per cent) and Lend Lease (23 per cent). As part of its participation in the alliance, Telstra has engaged IBMGSA to conduct its data centre operations and some of its applications maintenance and enhancement activities for a period of ten years. The alliance involved about 2,100 Telstra staff and contractors being engaged by IBMGSA. Telstra has agreed to pay higher rates and penalties if it does not purchase certain volumes of services from IBMGSA over the ten year period. Telstra can terminate this commitment after four years, subject to potentially significant financial penalties.

Telstra, IBM Australia and Lend Lease have also formed a network services joint venture company, Advantra, of which Telstra owns 50 per cent, IBM Australia 30 per cent and Lend Lease 20 per cent. Advantra supplies network facilities management, network systems integration services and network application services to major business and government customers in Australia and network services to the IBMGSA Network's customers across Australia. Telstra is the preferred supplier of telecommunications services to IBM Australia, IBMGSA and Advantra. Approximately 300 Telstra staff and contractors transferred to Advantra in fiscal 1998.

Networks and Systems

Telstra operates a number of fixed and mobile telecommunications networks to support its diverse range of products and services. These are all supported by an extensive national and international transmission infrastructure and largely centralised management, including planning, network control centres, operations systems and staffing. Telstra has in recent years invested a substantial amount of capital and resources in its networks and systems. The Company has been deploying its digital mobile telecommunications network and the Broadband Network. The Company is in the final stages of the Networks and Systems Modernisation Programme to upgrade and rationalise certain of its fixed networks and improve many of its systems, including those relating to billing, sales and customer service. This and other ongoing programmes also include initiatives to improve work practices, streamline processes, eliminate duplication of overhead costs and improve record keeping for property, plant and equipment. In addition to its capital expenditure programmes, the Company incurred research and development expenditures of A$43 million, A$58 million and A$86 million in fiscal 1998, 1997 and 1996 respectively. See Note 3 to the Financial Statements. Labour and depreciation incurred on research and development are included under these specific line items in the Profit and Loss Account rather than being shown as part of the total research and development expense. Telstra's research and development covers diverse areas of the business and is aimed at assisting in the development of new competitive products for world markets.

Growth in the demand for data services, including the increasing popularity of the Internet, is expected to drive the next round of investments in networks and systems particularly over the next five years. Telstra currently anticipates that its data traffic, by most measures, will exceed its voice traffic within two to three years. Telstra is evaluating (through a project known as the Data Mode of Operation Study) the feasibility of migrating much of its network traffic to Internet Protocol (IP) and ATM-based technology over the next ten years. The evaluation is also looking at the opportunities for the Company to use these technologies in its internal operations to reduce costs further and improve productivity. The demands from customers to have greater control of their services and access to information about them will require additional investment in systems to complement those already delivered. The Company also expects that it will increasingly become capable of

Item 1: Description of Business

supporting services which require high bandwidth using a variety of technologies including either via the Broadband Network or through the use of ADSL technology. In remote areas, this may be achieved through the use of satellite or other wireless technologies.

Transmission Infrastructure

Telstra's domestic inter-exchange transmission infrastructure consists of both terrestrial and non-terrestrial transmission systems. The domestic terrestrial systems are almost exclusively digital and use approximately 2.64 million kilometres of optical fibre and approximately 2,700 digital radio systems. In August 1995, Telstra activated one of the longest unrepeatered digital undersea cables in the world, which connects the Australian mainland and Tasmania. In June 1996, the Company activated what was then the longest synchronous digital hierarchy system in the world, a 5,000 kilometre 2.5 gigabits per second system from Perth to Brisbane. Telstra is currently introducing Wave Division Multiplexing Technology into its network to increase capacity at reduced unit costs.

Telstra's international transmission infrastructure includes both submarine cable and satellite transmission. Telstra owns substantial submarine cable capacity in the Asia-Pacific region and around the world. Cables landing on Australian shores and partly owned and wholly managed within Australia by Telstra are: Tasman 2, PacRimWest, Jasuraus, ANZCAN, Tasman 1, A-I-S and APNG. The Company is an initial party to a new large capacity fibre optic cable called SEA-ME-WE3, currently under construction and due to enter service in mid 1999. This cable will link into Asian countries and westward to Europe and eastward to the United States. The Company has also been admitted as an initial party to the China-U.S. cable consortium, which plans to link certain Asian countries to the United States and/or to Europe. This cable is expected to enter service in December 1999. Telstra is an investment shareholder and user of the international consortium satellite operators, INTELSAT and INMARSAT.

Public Switched Telephone Network

Telstra's PSTN can connect virtually all Australian homes and concentrates traffic from about 8,000 access sites to approximately 200 digital nodal switches across the country. These digital switches and the Company's two international gateway switches are connected by the Company's transmission infrastructure. In addition intelligent network platforms support advanced services, including card-based and toll-free products.

The access sites which connect customers to the local access switches use a variety of technologies, including copper, fibre optic cable and radio. Reflecting Australia's large geographic area but high level of urbanisation, most customers in urban areas are within 2.5 kilometres of an access site, while approximately 50 per cent of customers in provincial towns are within 2.5 kilometres of an access site. In rural areas, approximately 50 per cent of the customers have loop lengths greater than four kilometres, with some copper loops extending as far as 25 kilometres. All Telstra customers have single party services and a high proportion of local loop plant is installed underground, protecting it from weather and other influences. Telstra recently announced a plan to provide an expanded range of satellite-based services to continue its commitment to the rural and remote areas of Australia. The range of satellite services will include telephony services, access to the Internet, corporate data applications like email, Electronic Funds Transfer Point of Sale (EFTPOS), file transfer, video and telemetry.

During fiscal 1998 Telstra announced a project to significantly reduce the level of faults in the copper Customer Access Network (CAN) through the CAN 2001 project. The aim of this project is to improve the quality and reliability of the CAN. Specific goals to be achieved include reducing the average CAN fault rate, reducing the seasonal variation in fault volumes, reduction of operational expenses by reducing the number of CAN faults and retaining customers and revenue by improving quality and reliability. A consistent improvement in the quality of the CAN Australia-wide will assist in the development and deployment of new products and technologies such as OnRamp® and ADSL.

As part of the Networks and Systems Modernisation Programme, Telstra has significantly upgraded the PSTN by digitalising local exchanges.

The Company is also upgrading and augmenting access for customers in remote areas, typically served by radio-based access through its Remote Australia Telecommunications Enhancement programme. This programme, necessitated by customer growth and growing demand for access to high speed data, facsimile and Internet services, will improve and broaden services to approximately 17,000 customers in rural and remote areas spread across approximately two-thirds of the Australian mainland. Over 6,000 customers have already benefited in some way as a result of this programme with more than 3,000 of these customers achieving improved data speeds.

The PSTN supports voice, facsimile and data products. The rapid growth in the popularity of the Internet is fast changing the mix of these products. Further, Internet users tend to maintain local call connections with ISPs for substantially longer duration than a regular voice local call. These factors have the potential to affect the available capacity of the PSTN. Telstra monitors its traffic flows and manages its network capacity accordingly. In addition, the Company actively promotes the ISDN service to ISPs and is also introducing alternative technologies to provide Internet access without using the PSTN, such as via the Broadband Network and other data networks.

Integrated Services Digital Network

Telstra's ISDN services are provided in two ways: firstly, via an overlay network and, secondly, via a new composite service integrated with the PSTN. The overlay network has 28 nodes situated in capital and provincial cities of Australia. The composite ISDN service integrated with the PSTN is based on the ETSI (European) standard and is being marketed under the OnRamp® trademark. OnRamp® services are eventually expected to replace the services currently provided via the overlay network. As at 30 June 1998, Telstra had the capacity to

Item 1: Description of Business

provide ISDN service to 96.3 per cent of the Company's customers, either immediately or with the deployment of modular units within 90 days of a request for service.

Intelligent Network Platforms

Telstra operates a number of intelligent network platforms which support a range of advanced services including calling card (Telecard™), prepaid card (Phoneaway®), premium rate (InfoCall®), personal communication services (Telepath®) and inbound services such as Freecall™ 1800 and Priority® One3. The Inbound products are often mission critical to Telstra's major business customers underpinning their call centre and customer service operations. Telstra also operates additional Intelligent Network (IN) platforms to provide a range of enhanced features supporting Telstra's MobileNet® products and a selected range of services in Telstra's United Kingdom and New Zealand subsidiaries.

Telstra's full range of IN products are currently supported on a combination of internally developed and commercially sourced platforms. In order to deliver an enhanced range of integrated customer solutions at reduced operational costs Telstra has recently approved a five year IN upgrade programme to rationalise the number of platforms by the migration of selected products to a commercially sourced IN platform.

Data Networks

Telstra operates a number of data networks including the Switched Data Network, Transaction Network and the Digital Data Network. The Switched Data Network is a multiservice platform providing the Austpac®, Frame Relay and ATM Products. Austpac® is a public packet switching data service suitable for a wide range of data applications. Frame Relay and ATM provide site to site and multi site Wide Area Network (WAN) connectivity. Frame Relay provides 64 kilobits per second to 2 megabits per second connectivity. ATM provides 2, 34 and 155 megabits per second connectivity. Transend® is a national transaction switching network suitable for EFTPOS and Inventory Applications. The network provides Dedicated and Dial-up access in a secure environment for transaction carriage. The Digital Data Network provides dedicated site to site Digital Data Services at speeds up to 2 megabits per second and has extensive coverage across Australia.

Broadband Network

In 1994, Telstra commenced the rollout of its Broadband Network. As at 30 June 1998, the Broadband Network had passed 2.5 million homes, excluding businesses, with 750MHz hybrid fibre coaxial cable, primarily underground, with approximately 30 per cent aerial. The optic fibre configuration has two forward and one return path fibres with nodes capable of serving up to 1,200 customers each. The Broadband Network was designed from the outset to provide two-way transmission capabilities for interactive services and high-speed data transfer. Presently, the Broadband Network delivers pay television and, in some areas, high speed Internet access. For the delivery of Broadband on-line services to potential customers not covered by the Broadband Network, the Company may use technologies such as ADSL or satellite and other wireless delivery.

Mobile Telecommunications Networks

Telstra owns and operates two networks for the provision of mobile telephone services which provide services to a geographic area in which 94 per cent of the Australian population resides. The Company's analogue network uses the AMPS protocol and spectrum in the 800MHz band and has 44 switching centres and 1,365 base stations. While all metropolitan analogue AMPS sites will close as originally required by 31 December 1999, some non-metropolitan parts of the network may remain open for a further twelve month period. This is dependent on agreement between Telstra, Optus, Vodafone and the Government. Telstra's digital network uses the GSM protocol and spectrum in the 900MHz band. As at 30 June 1998, the digital network utilised 27 mobile switching centres, 13 home location registers and 2,146 base stations. The Company is continuing to expand digital coverage into regional centres and along highways linking regional centres, and is also focused on improving the depth of coverage, particularly in-building coverage, in major cities.

The Government has provided for the public auction of radio spectrum and auctioned 800MHz and 1800MHz bands to provide for additional capacity for existing digital networks and the introduction of new competitors. Telstra was successful in obtaining a substantial allocation of spectrum in both the 800MHz and 1800MHz bands. This will allow economical expansion of the GSM network in the 1800MHz band and provide the opportunity for Telstra to deploy a new cellular network and service based on the US digital cellular standards in the 800MHz band.

Telstra is aware that concerns have been expressed about the possible adverse health effects of electromagnetic energy from mobile telecommunications equipment. A claim was filed against Telstra by an individual alleging that such person developed cancer due to electromagnetic energy emitted from one of its base stations but Telstra has now obtained a judgement in its favour in that claim. Typically, the maximum level of energy involved at ground level in the transmission from the Company's mobile telecommunications base stations is approximately 100 times less than the public exposure level permitted by Australian Standard 2772.1.

Currently, the weight of national and international scientific opinion is that there is no substantiated evidence of adverse public health effects from radio signals at typical community levels. However, this evidence has not prevented lawsuits from being initiated by individuals against providers of mobile telecommunications services. From time to time there are studies which suggest avenues for further research. The Government has established a Committee on Electromagnetic Energy Public Health Issues to advise on the issue. The Government has also established a public information and research programme to support further studies, which is funded by a levy on holders of radio-communications licences.

Item 1: Description of Business

Information Processes and Systems

Telstra has a range of information processes and systems to support the delivery of products and services. Telstra aims to increase the benefits of its offerings to customers by introducing new products to the market more quickly, by providing more flexible and detailed billing and by reducing the overall costs to Telstra. To achieve this strategy, the Company is rationalising its existing suite of systems, and the related processes, deploying new systems and processes, implementing new management disciplines and outsourcing certain of its data processing functions.

Telstra has invested in many new systems and processes in recent years, in five principal areas: sales, customer ordering and provisioning, billing, service assurance and workforce management. During fiscal 1997, Telstra completed the national implementation of its new customer ordering and provisioning system called AXIS which improves service activation through improved integration with other core systems. Work has also been undertaken to align the provisioning and billing databases and to validate data entry, resulting in significant reductions in service order rejects and billing anomalies.

Telstra's flexible billing system called Flexcab®, offers customers a wide range of customised billing options and formats together with new functionality which provides faster speed to market for new products and services together with improved support to Telstra's business operations. Flexcab® also provides detailed local call records, enabling the Company to substantially reduce customer complaint levels.

The Company recently deployed new systems capability which allows Telstra's front-line sales and service representatives to access information more quickly to respond to customers. For example, one new system provides customer segment information and sales prompts thus enhancing the quality of service provided to residential and small business customers. Initial indications show that these new systems are significantly improving sales generation and customer service. The Company also recently introduced a workforce management system which aims to align work tasks more efficiently so that customers are provided with better service through more accurate and timely installations and repairs.

Telstra is implementing new commercial disciplines in the management of its processes and systems, including the improved co-ordination of systems and processes across the Company from a centralised group and by using new budgeting and programme management mechanisms, including the use of integrated databases.

Telstra has systems security, data integrity and disaster recovery procedures which it continues to review and upgrade. In particular, Telstra runs its billing systems primarily in one, large data centre for which it has designed a disaster recovery programme. The unlikely event of destruction or substantial impairment of this centre would lead to a delay in the billing of customers and the collection of related receipts while alternative facilities are expanded to resume operations of the billing systems to process back-logged billing data. A contingency plan has been prepared for execution in such a situation.

Special Projects

Jindalee Operational Radar Network

On 13 June 1991, Telstra entered into a contract with the Commonwealth to design, construct, install and maintain the Jindalee Operational Radar Network (JORN) for the Department of Defence. The project calls for the establishment of radar stations in remote spots in Australia which are designed to serve as long range data acquisition devices. As the project proceeded, the Company realised that its initial expectations regarding the timing of project completion and the costs required for completion were unattainable. Accordingly, in mid 1996, Telstra began to examine alternative arrangements for completing the JORN project.

On 14 February 1997, Telstra entered into agreements with Lockheed Martin Corporation Ltd (Lockheed) and Transfield Defence Systems Pty Ltd, now Tenix Defence Systems Pty Ltd (Tenix), to manage the JORN project through to completion. RLM Management Pty Ltd (RLM), a company jointly owned by Tenix and Lockheed, assumed management control of the project from 17 February 1997. Telstra is the prime contractor for the project. The JORN project has proven unprofitable for Telstra and completion is not projected until 2001.

On 2 October 1997, the Company finalised negotiations with RLM to settle arrangements whereby Telstra has a right, on certain events happening, to require RLM to assume full responsibility for completion of the JORN project.

Telstra has made allowance for its ongoing obligation in relation to the JORN project. As at the end of fiscal 1998, this provision remained at A$605 million (1997 A$605 million). Accordingly, Telstra believes it has made adequate provisions for JORN. (See Note 13 to the Financial Statements).

Telstra expects that its arrangements with RLM should enable Telstra to complete the project at a level consistent with such provisions. Although there is a residual risk that further costs may be incurred by Telstra in relation to the project, no such costs are presently anticipated.

Employees

With approximately 57,200 full-time employees as at 30 June 1998, Telstra is one of Australia's largest employers. It has approximately 3,000 work sites in Australia and approximately 800 expatriate and local employees located in parts of Asia, the United States and Europe.

	As at 30 June		
	1998	1997	1996
Full time employees	**57,234**	66,109	76,522
Full time equivalent employees (1)	**66,760**	76,990	88,995

(1) Full-time employees includes full-time staff, fixed term contracted staff and expatriate staff in overseas controlled entities. Full-time equivalent employees includes full-time

Item 1: Description of Business

employees and a full-time equivalent measure of part-time and casual staff, overtime worked, full and part-time contracted staff and a measure of overseas local hires and in fiscal 1997, an additional 405 full-time equivalent employees arising from a change in reporting related to overseas local hires.

In order to roll out the Broadband Network, provide for the growth of mobile telecommunications services, deliver increased value to customers and implement the Networks and Systems Modernisation Programme, Telstra increased staff numbers in fiscal 1996. However, the strong focus on streamlining the organisation and its work processes to reduce duplication and unnecessary complexity and to take advantage of recent capital investment has resulted in labour efficiencies. Management's goal is to achieve cost and operational efficiencies that will result in a reduction of the Company's full-time staff numbers by approximately 27,500 over a five year period that began in fiscal 1997. During fiscal 1997, a provision of A$1.1 billion was recorded to cover estimated redundancy and restructuring costs related to its workforce reduction and restructuring. The adequacy of the provision was reviewed in fiscal 1998 in line with the new three year plan approved by the Telstra Board during fiscal 1998 and a further provision has been included in the financial statements for 1998. During fiscal 1998, the Company achieved reductions of approximately 8,900 full-time staff without material industrial disruption, largely through natural attrition, voluntary redundancies, completion of fixed term contracts for construction and technical staff and outsourcing. This brings the total reduction in full-time staff numbers in the last two fiscal years to approximately 20,800. The reductions in 1997 were offset in part by the addition of 1,500 full-time staff relating to the consolidation of Pacific Access as of 20 June 1997. See Item 9 and Note 32 to the Financial Statements.

Telstra is continuing the development of a new corporate culture focused on delivering value to customers, improving commercial discipline, accountability and productivity and increasing workforce flexibility and product innovation. The transformation into a commercially oriented enterprise involves a review of management systems and work practices.

This review is being pursued in a number of ways, including:

- analysis and redevelopment of existing Telstra policies to ensure their compatibility with commercial competitiveness; and
- simplification of Telstra's industrial awards and agreements. Recent changes to Australian Workplace Relations legislation requires simplification of the Company's Awards and also changing them to provide more flexible minimum pay rate arrangements. With freedom to pay above the minimum, this system provides for a variety of reward possibilities for groups and individuals. Simplification of excess workplace regulation in favour of the exercise of discretion by managers means a significant departure from the Company's current employment practices and presents a risk of opposition from the unions which claim to represent over three-quarters of the Company's staff. The Company is continuing discussions with its unions and staff about the transition to the arrangements required by the new legislation. The Australian Industrial Relations Commission (AIRC) will arbitrate on matters which cannot be agreed between the Company and unions. Already the Company has been able to adopt a commercial performance management system as a result of the AIRC deleting the old public service discipline procedures from Telstra's General Conditions of Employment Award. Several other obsolete provisions have been removed.

Negotiations are continuing between the Company and unions to agree on a replacement for the present single Enterprise Agreement which expired on 4 October 1997 but which continues in effect until a new Agreement is concluded. Significant issues in these negotiations have yet to be resolved and the unions have initiated some industrial action. The Company continues to pursue increased management and labour flexibility from these negotiations.

In 1990, Telstra established its own superannuation scheme. A majority of the Telstra employees participating in the Commonwealth Superannuation Scheme (CSS) elected to transfer to the Telstra Superannuation Scheme (TSS), leading to the transfer of certain amounts from the Commonwealth consolidated revenue. Pursuant to a Ministerial Determination, these amounts are being paid to the TSS by the Commonwealth over an extended period based on actuarial estimates. As at 30 June 1998, the present value of these assets to be transferred was A$2.1 billion.

In June 1995, Telstra committed to contribute an additional A$121 million per year through to 2011 to the TSS to ensure that it was not in an unsatisfactory financial position. As at 30 June 1998, Telstra has a liability of A$785 million using a discount rate of 11.8 per cent, representing the present value of the remaining payments. The Commonwealth has guaranteed these payments in the event that Telstra becomes insolvent during the period.

In addition, Telstra's past payments in relation to the CSS have resulted in Telstra being credited with a surplus in the notional fund of the CSS. The Commonwealth has indicated that repatriation of part of that surplus to the TSS will be permitted where the surplus is greater than 15 per cent of the sum of the employer financed benefits (past and future service) for the Telstra Entity's existing CSS members and outstanding deferred transfer value payments for ex-CSS members who transferred to the TSS.

The actuarial valuation as at 30 June 1997 confirmed that the CSS surplus was greater than 15 per cent and the Telstra Entity is in discussions with the Commonwealth regarding the repatriation of this surplus to the TSS.

An actuarial investigation was conducted by S. Schubert FIAA on the TSS as at 30 June 1997. On the assumption that the CSS surplus, net of 15 per cent contributions tax payable on its transfer into the TSS, is available to increase the assets of the TSS, the actuary has recommended that the Telstra Entity cease defined benefit contributions to the TSS (other than the additional contributions of A$121 million per annum that the Telstra Entity is committed to contribute to the TSS over the next 13 years, referred to above) for the three year period from 1 July 1998 to 30 June 2001. Based on that advice, the Telstra Entity's Board of Directors (subsequent to fiscal 1998) has agreed

Item 1: Description of Business

that the employer contribution rate for the defined benefit component of the TSS will be reduced to nil for the next three years, subject to a satisfactory outcome from the above mentioned discussions and a consequential response from the Minister for Finance and Administration. See Note 21 to the Financial Statements.

Competition

The Australian telecommunications market has undergone significant liberalisation over the past eight years. A series of changes in regulatory policy beginning in 1989 has increased competition. On 1 July 1997, the regulatory regime was further liberalised to allow for open competition.

Telstra has experienced competition for some time in many of its markets. This competition began with the opening of the customer premises equipment and value added services markets in 1989, followed by the establishment of Reseller competition in 1991, particularly in the national long distance and international telephone service markets. The competitive environment changed significantly in 1992 when Optus assumed the second general Carrier and mobile Carrier licences and began reselling Telstra's analogue mobile telephone service and offering national long distance and international telephone services. In 1993, Optus and Vodafone Pty Limited (Vodafone) (as well as Telstra) each began offering digital mobile telephone services over their own mobile telecommunications networks. Since then, many smaller competitors have emerged.

While the introduction of competition has affected Telstra's market position, it has also stimulated overall market growth and such trends are expected to continue. The Company intends to pursue the opportunities that the new competitive environment provides through the provision of high quality services that deliver value to its broad range of customers. In particular, the new competitive environment provides the Company with increased opportunities to offer customers new value-added products and services and competitive price and product packages. The Company has also redesigned its marketing and distribution channels to improve and augment the Company's service to its customers and to attract new customers.

Starting from the position of being the sole provider of products and services in most Australian telecommunications markets, the Company has inevitably lost market share due to increasing competition. As the open competition environment has only recently come into existence, there is substantial uncertainty as to how competition will continue to develop in the future and the effect that it will have on the Company in each of its markets.

Access and Local Calls

Telstra currently faces limited competition in basic access and local calls services. However, the Company expects that competition will increase significantly in these markets as competitors deploy their own infrastructure and continue to resell the Company's services.

Telstra's principal existing facilities based competitors, including Optus and AAP Telecommunications Pty Ltd (AAPT), have established dedicated connections with large business customers, principally in central business districts. Dedicated connections allow these competitors to direct all of a particular business' telecommunications traffic to their own networks, including local, long distance and international calls, data transmission and other telecommunications services. Additional competitors are also entering this market by deploying their own fixed or wireless telecommunications infrastructure. Optus is selectively offering basic access and local calls services over the hybrid fibre coaxial cable network that it has rolled out to residential areas in recent years. Recent initiatives by other cable operators into local telephony have so far failed to materialise and it may be some time before serious competition develops. Notwithstanding the issues facing cable companies, the recent introduction of local number portability may accelerate the development of facilities based competition in these markets.

Telstra offers to providers of telecommunications services (both Resellers and Carriers) complete access and local call services at a discount to its retail pricing. The Company expects the number of such competitors to increase, as providers of long distance and other services seek to gain market share by providing a full service package to their customers. Telstra has signed an interim commercial agreement with Optus in relation to the supply of local services resale. Optus has indicated that it has signed this agreement under protest and is continuing with its legal proceedings against Telstra in relation to these matters. As a result of the ACCC's current local services inquiry, Telstra could also be required by regulation to unbundle access services and to offer local loop access and local call services at lower prices, which may provide additional advantages to Telstra's competitors.

Telstra's strategy to address increased competition in these markets is to package products and services for the convenience of its customers. The Company is also encouraging its customers to migrate to enhanced access services such as ISDN. The Company also seeks to increase growth through the promotion of second lines and to deploy its own advanced dedicated connections to enhance its provision of voice and data services to large businesses. While regulation constrains the Company's pricing, particularly with respect to local calls, Telstra's strategy is to price these services on a more commercial basis.

Competition in the access and local call markets has important flow-on consequences for the Company's other telecommunications markets, particularly national long distance and international telephone services.

National Long Distance and International Telephone Services

The competition that Telstra has faced in the national long distance and international telephone services markets for several years has significantly eroded its market share in these markets. Telstra's principal competitor in these markets has been Optus, which operates its own extensive network. Other competitors, such as AAPT, Primus Telecommunications Pty Ltd, WorldxChange Telecommunications Pty Ltd and Global One Communications Pty Ltd, currently own their own switches, lease access and transmission capacity, and resell certain services

Item 1: Description of Business

principally from Telstra or Optus. Such competitors now have significantly greater freedom under the new regulatory regime to develop their own infrastructure and to use it to provide additional telecommunications services. Other smaller competitors only resell complete services. In addition, call-back operators compete in the international telephone services market.

Competitors' success in these markets will depend upon several factors, such as customers' sensitivity to pricing, the effectiveness of promotions and other marketing campaigns and the implementation of the new regulatory regime. Call-by-call selection (or "override") dialling and default choice (or "preselection") are available and are required to be provided more broadly in the new environment. A competitor which gains market share in access and local calls will have certain advantages in offering long distance and other services to its customers.

As wholesale originating and terminating access and transmission services are important for the facilities based provision of national long distance and international telephony services, the pricing of these services is likely to shape the development of retail competition. Competition already exists in the wholesale provision of transmission services on major domestic and international routes. The pricing of these services is largely dictated by commercial negotiation and has been falling as new competitors enter the wholesale market. The new regulatory processes introduced on 1 July 1997 also provide a framework to determine terms, conditions and pricing of transmission services, particularly in non-competitive areas.

In response to these competitive pressures, Telstra is focused on delivering a range of tailored products and services in convenient packages and has begun to simplify its billing statements and payment procedures. Telstra's Making Life Easier™ approach underpins these and other initiatives, which are designed to enhance customer loyalty and increase retention. In addition, the Company seeks to stimulate usage through a variety of special promotions and offerings.

Mobile Telecommunications Services

Mobile telecommunications services is one of the most competitive of the major markets in which Telstra operates. In the analogue service market, the Company competes only with Optus, which resells Telstra's analogue service. In the digital service market, the Company competes with both Optus and Vodafone, each of which operate digital networks, and a range of other competitors which resell either Optus or Vodafone services.

Competition in the mobile telecommunications market has principally been based on handset subsidies, geographic coverage area, service quality, sales channel strength and air time charge differentiation. The Company believes that the strength of the MobileNet® brand name, its ability to market its mobile services to its significant fixed telecommunications customer base and its extensive internal and external distribution channels leave the Company well positioned to continue to compete vigorously.

With the gradual closure of the Company's analogue AMPS mobile telecommunications network both Telstra and Optus are focused on migrating analogue customers to their digital services. In order to assist migration, Telstra has developed targeted programmes and offerings for its analogue customers, such as attractive handset upgrades and enhanced services. Vodafone and other digital service competitors are also targeting these customers. The new regulatory regime assists these other competitors by mandating that the Company provide analogue-to-digital call diversion.

Under the new regulatory regime, the availability of spectrum will determine, in part, the number of mobile telecommunications Carriers. New entrants and existing Carriers acquired 800MHz and 1800MHz spectrum at recent public auctions. The ACA has proposed future spectrum auctions of various frequency bands including spectrum in the 28 and 31 gigahertz (GHz) bands which can be used to provide Broadband Local Multipoint Distribution Services, and spectrum in the 3.4GHz band which can offer an alternative to wireline means for delivering telephony and data services.

Telstra also acquired additional radio communications spectrum in both the 800MHz and the 1800MHz bands at the ACA auctions. The spectrum acquired by other Carriers related to limited areas only. Unlike Telstra, none of these Carriers has adequate spectrum in the 1800MHz band to operate a national network without reliance on other Carriers.

Continued implementation of the revised regulatory regime may also foster competition in this market through such potential developments as the requirement that Carriers provide digital customers with preselection, the introduction of number portability in the digital service market, and the introduction of satellite mobile telephony CSPs.

Data and Text Services

Competition in data and text services markets is highly developed for certain products, such as high capacity data transmission, and less developed for others. Competitors seek to differentiate their offerings based on price, functionality and ability to offer integrated products and services. While Optus and AAPT are currently the Company's principal competitors the Company expects additional competitors to enter the market, including major international telecommunications providers and global alliances.

This market is characterised by rapidly changing customer needs, particularly driven by increasing demand for higher speed and more flexible data services. The pace of technological change and competitors' abilities to adapt and utilise new technologies will likely be key determinants of success. In addition, the implementation of the new regulatory regime, particularly the compulsory provision of originating and terminating access to competitors, will further shape the nature of competition in this market.

Telstra believes that it is well positioned, with its broad range of products and extensive telecommunication skills, to remain competitive in this dynamic market. The Company emphasises

Item 1: Description of Business

the strength of its customer relationships and, in addition to marketing individual products, promotes tailored solutions under the new Fractal™ brand.

Wholesale Services

Wholesale services include any services sold to providers of telecommunications services who use them to provide their own products and services to end users. The degree of competition in wholesale markets varies by product. To date, Telstra has faced limited competition in the wholesale access and local call markets. The international carriage and call termination market, however, has been highly competitive. In addition, some competitors, including Optus, offer significant discounts on wholesale long-distance services. Optus and other new entrants also rebill and resell Telstra's call termination services to end customers in competition with Telstra. Generally, competitors differentiate their wholesale services based on price, geographical network coverage, capacity and functions used to support retail services. New entrants may include public utilities and foreign wholesale service specialists.

The development of competition in wholesale services will depend in large part on the number of competitors that deploy infrastructure. Under the new regulatory regime, no limits exist on the number of entities that can install and maintain facilities required to provide wholesale services. The incentive for potential new entrants to deploy infrastructure, however, will depend in part on the manner in which existing providers of wholesale services price such services and the regulatory response. Telstra seeks to structure its wholesale product offerings and pricing to ensure compliance with regulatory requirements, while securing full cost recovery and optimising commercial outcomes.

Pay Television and On-Line Services

The market in which pay television services are offered is highly competitive. FOXTEL and Optus Vision are the principal providers of pay television services over cable in largely overlapping areas. In addition, Austar Entertainment Pty Ltd distributes pay television through wireless and wireline systems in many regional areas and has similar programming to FOXTEL. In some regional areas, limited pay television services are offered by other pay television operators. Pay television providers also compete with free-to-air television operators and are prevented from holding exclusive broadcast rights to certain sports programmes.

FOXTEL is the leading pay television provider in Australia with over 320,000 subscribers as at 30 June 1998. In addition to its cable distribution, FOXTEL is strongly positioned to enter satellite distribution, having acquired digital satellite set-top units (including those located in the homes of former Galaxy Network International Pty Ltd (Galaxy) subscribers) from the Australis Media Limited (Australis) receiver.

Because of the early stage of development of pay television in Australia, the factors upon which operators compete are evolving and relatively high levels of churn exist although these are falling. Competition is based on a number of factors including programming, brand, price, marketing and service support, and means and geographic scope of service delivery. Telstra believes that FOXTEL is well positioned to compete on the basis of its brand, diverse programme offerings and exclusive delivery arrangements with Telstra. Considerable industry rationalisation has occurred following the termination of certain contracts with Australis, which is the subject of receivership and winding-up orders. However, because programming costs facing pay television providers are still high by world standards, it is likely there will be further industry rationalisation, which could change the competitive position of industry participants. While this rationalisation should further lower programming costs, it may lead to some loss of exclusivity of the programming distributed on Telstra's cable.

The Company's on-line, content and web hosting services are subject to a high level of competition from a number of domestic and international competitors. Many of these competitors are vertically integrated and gain advantages from their position in related markets, such as in content or technology markets. Legitimate vertical integration enables Telstra to establish commercial arrangements to support information and transaction services, and to capture economies of scale and scope. Competitors seek to differentiate themselves based on a variety of factors, including brand recognition and the entertainment, educational and commercial value of the content.

For Internet services, competitors emphasise price, speed and availability of access, and associated information or transaction services. Telstra believes it will remain a strong competitor in the provision of Internet and on-line services based on the Big Pond® product range, the speed and geographic reach of its Internet infrastructure and the growing range of available information and transaction services. Telstra also pursues options to compete through its own product development activity and through alliances and partnerships with a broad range of content developers and providers, established business and financial institutions, educational bodies and merchant organisations.

Other

In addition to increasing competition in markets described above, the Company competes with a variety of domestic and international companies and alliances in its other markets. For example, the Company expects to experience increasing competition in its Directory Services business as from 1 July 1998 it has been required to provide an integrated public number database for use by all CSPs and has been experiencing increased competition in this business from regional competitors. In its public payphones business, Telstra expects increasing competition due to new market entrants and increased mobile telephone penetration. The Company also faces significant competition from product manufacturers and retail outlets in its customer premises equipment business.

Regulation

Background

The 1997 regulatory regime represents the third step in the introduction of open competition to the Australian telecommunications industry.

Item 1: Description of Business

The major features of the regime include (i) reliance on general trade practices concepts subject to certain industry specific restraints; (ii) reliance on self-regulation; (iii) no limits on the number of Carriers; (iv) providing CSPs with many of the same access rights and obligations as Carriers; and (v) restricting Carrier land access rights and statutory immunities.

A Carrier is any person holding a Carrier licence. The licence application charge is A$10,000 with annual licence charges also payable. In general, the owner of certain network infrastructure must not use the infrastructure to supply telecommunications services to the public unless it holds a Carrier licence. A CSP supplies a telecommunications service to the public using network infrastructure owned by a Carrier. A Content Service Provider is a person that uses a telecommunications service to supply to the public a content service, such as a broadcasting service or on-line information or entertainment service. Telstra is a Carrier, Carriage Service Provider and a Content Service Provider.

Principal Regulators and Self-Regulation

Governmental responsibility for telecommunications industry policy and legislation in Australia rests primarily with the Communications Minister and the Department of Communications and the Arts (DOCA). The Communications Minister can make rules in connection with the implementation and operation of certain aspects of the 1997 regulatory regime and, at his discretion, impose or vary the conditions of a Carrier's licence. In addition, the Communications Minister has power to give binding directions to Telstra, but only in relation to some matters.

The ACCC administers the Trade Practices Act 1974 (Cth) (Trade Practices Act), which is the principal Act relating to the promotion of competition and the protection of consumers. The new telecommunications access regime, the telecommunications specific provisions for controlling anti-competitive conduct and the Telstra retail price caps and price control arrangements are now administered by the ACCC.

The ACA is responsible for regulating the non-competition aspects of the telecommunications industry, such as Carrier licensing, technical regulation, quality of service, numbering, the Universal Service Obligation, spectrum management and industry codes and standards.

Industry Codes and Standards

The 1997 regulatory regime provides for industry codes governing activities of Carriers or CSPs to be developed by bodies that represent one or more sections of the industry, such as the Australian Communications Industry Forum (ACIF). For example, the ACIF is drafting codes concerning privacy, customers' switching mobile telephone Service Providers, the use of customer information and consumer codes relating to billing, complaint handling and credit management. Although these codes are self-regulatory instruments, the ACA has the power to direct compliance with a registered code and in some circumstances to set mandatory industry standards. Non-compliance with an ACA direction to comply with a registered code or a standard by a Carrier or CSP is subject to a maximum penalty of A$250,000 as determined by the Federal Court of Australia.

Competition Regulation

Competition Rule

The competition rule provides that a Carrier or CSP must not engage in anti-competitive conduct. The competition rule is breached if a Carrier or a CSP contravenes certain general trade practices rules, in respect of a telecommunications market, or where it has a substantial degree of market power and takes advantage of that power with the effect or likely effect of substantially lessening competition in any telecommunications market.

The ACCC can issue a competition notice stating that a Carrier or a CSP has contravened the competition rule. The competition notice constitutes prima facie evidence in any subsequent Federal Court proceedings of the alleged contravention. Any such conduct in breach of the competition rule which occurs after the competition notice comes into effect exposes the Carrier or a CSP to penalties of up to A$10 million and A$1 million per day of contravention, together with potential liability to pay compensatory damages to affected third parties. However, penalties may be imposed and damages awarded only by the Federal Court. In addition, the ACCC may at any time apply to the Federal Court for an injunction to restrain anti-competitive conduct.

As at 13 August 1998 the ACCC had only issued two competition notices, both against Telstra. The first related to conduct in relation to Internet services, however, the ACCC withdrew the notice prior to it coming into effect. The second notice issued on 10 August 1998 refers to Telstra's customer transfer process but does not come into effect until 30 September 1998. Telstra is reviewing the processes and costs of its customer transfer process and is currently in negotiations with the ACCC regarding this issue.

Information Gathering Powers

The ACCC has a range of powers available to it to seek information from participants in the telecommunications industry, and Telstra specifically. If the ACCC is satisfied that a Carrier or CSP has a substantial degree of power in a telecommunications market, it may direct such Carrier or CSP to provide information about charges for its services and products. In addition, Telstra alone is required to give the ACCC such information about its charges for certain "basic telecommunications services" as the ACCC requires. If the ACCC is satisfied that there would be a net public benefit in publishing charging information, it must do so, subject to a right of appeal. Further broad powers are available to the ACCC to seek information where it considers that a person may be engaging in anti-competitive conduct.

2000 Review

The Communications Minister has indicated the Government's intention to align the competition rules, competition notice powers and charging information powers for the

Item 1: Description of Business

telecommunications industry to the fullest extent practicable with general trade practices law. The legislation states that these industry specific rules and powers must be reviewed before 1 July 2000 to consider whether the provisions should be repealed or amended.

Retail Price Restrictions

The Government imposes retail price controls on various discrete Telstra services and groups of services. Telstra cannot increase prices for the basket of basic access, local, national long distance and international calls, domestic and international leased lines, fixed-to-mobile calls and mobile telecommunications services beyond annual increases in the Consumer Price Index (CPI) over the previous year less a specified percentage (the X amount). If the annual increase in the CPI is less than the X amount, Telstra is required to reduce its prices accordingly. The X amount on the basket for these services is 7.5 per cent until at least 31 December 1998. An X amount of 1 per cent applies to each of the following services for residential customers: connections; line rentals; national long distance calls (including fixed-to-mobile calls); and international calls. These price cap arrangements are being reviewed by the Government with any new arrangements expected to have effect from 1 January 1999. The Communications Minister has also indicated that controls imposed on Telstra as a result of the 1998 review will continue until the end of 2000. The need for controls beyond that date will be determined during 2000.

Telstra cannot increase its prices by an amount more than the CPI without the ACCC's consent for any service in the following categories: mobile telecommunications services; connections and line rental for certain telecommunication services; domestic and international leased lines; and local, national long distance, international, and fixed-to-mobile calls. Further, Telstra must not alter any of the prices for these services in a manner which, in the opinion of the ACCC, is a misuse of market power.

In addition, Telstra must not charge more than A$0.40 for untimed local calls from payphones and not more than A$0.25 for any other untimed local calls. A further price control measure, which came into effect on 1 January 1998, effectively requires that both: (i) the average Telstra price for untimed local calls provided to residential/charity customers in non-metropolitan areas in 1998 must not exceed the average price charged by Telstra to residential/charity customers in metropolitan areas in 1997; and (ii) the average Telstra price for untimed local calls provided to business customers in non-metropolitan areas in 1998 must not exceed the average price charged by Telstra to business customers in metropolitan areas in 1997. Further, Telstra also cannot impose or alter a charge for directory assistance services without notifying the Communications Minister, who has the power to disallow such imposition or variation.

Untimed Local Calls

All Carriers and CSPs are required to offer an option for untimed local calls for certain basic telecommunications services provided to residential customers and charitable organisations for all local calls and to businesses for local voice calls, in each case where the call was of a kind that at 20 September 1996 any Carrier offered on an untimed basis, or is supplied to the customer in fulfilment of a Universal Service Obligation.

Access

Declared Services

The Trade Practices Act creates an access regime specific to the telecommunications industry. The ACCC can determine that a particular telecommunications service or other service that facilitates the supply of a telecommunications service, is subject to the regulated access regime (Declared Service). Unless exempted by the ACCC, any Carrier or CSP that supplies a Declared Service to itself or another person must provide (i) that service to Carriers, CSPs or Content Service Providers who require it to provide telecommunications services or content services and (ii) relevant interconnect services. These standard access obligations are subject to exceptions relating to available capacity, protected contractual rights and the reliability, creditworthiness and technical ability of the party seeking access. For access to services which are not Declared Services parties must engage in commercial negotiations, subject to general trade practices law.

The ACCC has declared the following as Declared Services:

(i) originating and terminating access for domestic PSTN, ISDN, GSM and AMPS-based mobile telecommunications networks;

(ii) transmission capacity on all routes except Melbourne - Sydney on bandwidth of 2, 4, 6, 8, 34/45, 140/155 or higher megabits per second;

(iii) digital data access service (domestic carriage of data between exchange or other network facilities and customer premises);

(iv) conditioned local loop service (a bundled service for the supply of unswitched transmission capacity in the local loop);

(v) the diversion of calls made to disused AMPS numbers to the customers' new GSM-based numbers; and

(vi) analogue broadcasting access services provided by cable networks and related management subscriber functions.

Further services can be declared by the ACCC either in accordance with an industry recommendation or after conducting a public inquiry and finding that the declaration of a particular service will promote the long term interests of end users. In determining whether the long term interests of end users will be promoted, the ACCC must have regard only to whether declaring the service is likely to promote competition in markets for telecommunications and related services, achieve "any to any" connectivity and encourage the economically efficient use of, and investment in, telecommunications infrastructure.

The ACCC has underway an inquiry into the possible declaration of local services resale and unbundled local loop services.

Item 1: Description of Business

Decisions on these issues are expected by late calendar 1998. The ACCC has held an inquiry in relation to the declaration of a GSM intercarrier roaming service, but has decided to take no further action on this issue at this time.

Broadband Access

Under the 1997 regime, owners of Broadband cable networks (Telstra Multimedia and Optus Vision) are regulated as Carriers. Persons who supply carriage services using Broadband cable networks, such as Telstra Multimedia, are regulated as CSPs.

A broadcasting access service for the transmission of pay television has been included in the ACCC's list of Declared Services, with the aim of providing, subject to various preconditions, third party access to Broadband cable networks.

However, a standard access obligation will not attach to a Declared Service where that would deprive any person of a protected contractual right. FOXTEL has certain exclusive contractual rights to access the Broadband Network to supply pay television. Further, under its agreement with FOXTEL, Telstra Multimedia may not provide a broadcasting access service to any person utilising set-top unit functionality unless that service includes certain bundled functionality. These FOXTEL rights are, in Telstra's view, protected contractual rights.

Terms and Conditions of Access

The access provider must take all reasonable steps to ensure that the technical and operational quality of the Declared Service and interconnection supplied to the access seeker is equivalent to that which the access provider provides to itself. Billing information must also be provided. If the access provider supplies a Declared Service using conditional access customer equipment (for example, a set-top unit for a pay television service) it must enable the access seeker to use that equipment.

A Carrier or CSP may propose to the ACCC access undertakings which set forth terms and conditions on which it will offer to supply Declared Services. If an access undertaking adopts terms and conditions set out in a telecommunications access code approved by the ACCC, the undertaking must be accepted by the ACCC. If not, the ACCC may accept an undertaking only if satisfied that its terms and conditions are reasonable, which requires, among other things, consideration of the long term interests of end users and the access provider's legitimate business interests.

The terms and conditions (including price) of standard access obligations are to be resolved by commercial negotiations. If negotiations fail but an access undertaking, which includes the relevant terms and conditions, has been provided by the access provider and has been accepted by the ACCC after public inquiry, the access undertaking will prevail. If there is no such undertaking, the ACCC may arbitrate the terms and conditions on which the standard access obligation will be met. Telstra has filed an access undertaking for ACCC consideration for originating and terminating access for domestic PSTN and GSM and AMPS-based mobile telecommunications networks.

A detailed regime exists for ACCC arbitration of access disputes. Matters which the ACCC must take into account in making an arbitral determination include promoting the long-term interests of end users, the legitimate business interests of the access provider and its investment in facilities and the direct costs of providing access. These matters balance the interests of end users and the access provider and access seeker. ACCC arbitral determinations are subject to appeal on the merits to the Australian Competition Tribunal. If there is a Declared Service for which there is no access undertaking, either party to an access agreement for that service may at any time seek changes to the agreement by ACCC arbitration. However, the ACCC may decline to arbitrate.

Access Pricing

The ACCC has published Access Pricing Principles (Principles) setting out how the ACCC proposes to approach price issues when considering access undertakings and determining access disputes in accordance with the long-term interests of end users. The Principles indicate that regulated cost based pricing is appropriate only for well developed Declared Services that are necessary for competition in particular markets, where competitive forces work poorly to set prices at a level which the ACCC regards as efficient (collectively, Relevant Services) and proposes generally to require access prices for such Relevant Services to be based on the total service long run incremental cost (TSLRIC) of providing the service. TSLRIC is generally regarded as the incremental cost incurred in the long term of producing a service; that is, the cost which would be avoided in the long term if a service were not provided. TSLRIC (as defined by the ACCC) consists of the forward looking operating and maintenance costs incurred in providing a service using the most efficient means commercially available and valuing inputs using current prices, including common costs that are causally related to the service. In defining the TSLRIC standard, the ACCC states it has taken into account the legitimate business interests of the party providing the Relevant Service by including in TSLRIC a normal commercial return on capital.

The legislation provides for the making of a Ministerial pricing determination setting out compulsory principles for establishing access prices which must be followed by the ACCC, however, to date no Ministerial pricing determination has been issued.

Given the lack of precision in the Principles, certainty in access pricing is not likely to be obtained until prices are settled by commercial negotiation, arbitration or the ACCC after public inquiry. In some instances, such prices can be backdated to take effect from 1 July 1997, where the access seeker was a service provider under the Telecommunications Act 1991.

Telstra and Optus have agreed to the pricing for the provision of certain originating and terminating access services and certain other services for fiscal 1998. A new agreement for fiscal 1999 will be negotiated after the ACCC has reviewed Telstra's draft undertaking on pricing.

Item 1: Description of Business

Carrier-to-Carrier Access Obligations

In addition to its access obligations under the Trade Practices Act, so that other Carriers may provide competitive facilities or telecommunications services, each Carrier is required to provide access on request to other Carriers to:

(i) its customer cabling and equipment and network infrastructure (including lines, towers, ducts and land) in place on 30 June 1991 or installed since that date using statutory powers, if such access will promote the long-term interests of end users;

(ii) certain information relating to the operation of the Carrier's networks; and

(iii) underground ducts and certain towers and sites with the aim of ensuring that so far as possible facilities are collocated on towers and in underground ducts, unless the ACA finds that collocation is not technically feasible.

Access to these facilities and information is to be on commercially negotiated or arbitrated terms and conditions. In addition, the Communications Minister can determine pricing principles for access to customer cabling and equipment, network infrastructure and information relating to the operation of a network.

The ACCC has developed a draft Facilities Access Code with which Carriers will be required to comply in relation to access to towers and underground facilities. As required by legislation the Code only provides an express right for a Carrier to reserve space for future requirements where it has commenced the process of preparing capacity in or on a facility.

Carrier and Service Provider Rights and Obligations

An owner of certain network infrastructure must not use it to supply a carriage service to the public unless the owner holds a Carrier licence issued by the ACA or a third party Carrier has been nominated and declared by the ACA as accepting Carrier responsibilities for the infrastructure. There is no legislative limit on the number of Carrier licences which may be issued. A licence applies to all carriage services and does not distinguish between fixed, mobile or satellite services. Telstra's Carrier licence is deemed to have taken effect on 1 July 1997 while Telstra Multimedia was granted a Carrier licence which took effect from that day.

Annual licence charges are to be fixed by the ACA to recover certain costs including the operational costs of the ACCC and the ACA in telecommunications regulation. All Carriers must comply with the Telecommunications Act 1997 (Cth) (1997 Act) and the standard access obligations. Any breach of the 1997 Act or a standard access obligation is subject to a penalty determined by the Federal Court of up to A$10 million. Carrier licences can be cancelled only on very limited grounds such as a failure to pay an annual licence charge or a universal service levy.

The Communications Minister has discretion to impose conditions on any Carrier licence subject to prior consultation with the Carrier. Telstra's Carrier licence currently requires it to:

(i) provide operator and directory assistance services to end users of certain basic telecommunications services that it provides;

(ii) annually produce, publish and provide an alphabetical telephone directory;

(iii) establish and maintain an integrated public number database and the provision of access to the database to all CSPs for certain purposes including supplying directory or operator services or producing a directory. The terms and conditions are to be commercially agreed or arbitrated. In arbitration, Telstra's charge for access to the database is restricted to the direct costs of providing access and a reasonable contribution to a normal return on capital;

(iv) ensure reductions in connection and annual charges for certain basic telecommunications services of at least specified amounts if a customer does not rent a handset from Telstra for use with that service;

(v) be in a position by 31 December 1998 to make available to at least 96 per cent of the Australian population a digital data carriage service broadly comparable to that provided by an ISDN data channel with a transmission speed of 64 kilobits per second. The 96 per cent coverage figure is based upon Telstra's own rollout plan;

(vi) have in place and report against an industry development plan approved by the Minister for Industry, Science and Tourism, and comply with the plan to the extent it relates to research and development;

(vii) provide local number portability services to Optus on specified terms and conditions until longer term arrangements are set under the provisions of the 1997 Act; and

(viii) provide resale (for a limited time) of, and/or roaming on, its AMPS service to the operators of proposed new digital mobile networks on terms and conditions, commercially negotiated or arbitrated.

A CSP that provides certain basic telecommunications services must provide or arrange for the provision of itemised billing services, operator services and directory assistance services to end users. Telstra will be required to provide operator and directory assistance services if requested, on terms and conditions commercially negotiated with the CSP or arbitrated. A CSP must also supply information for the integrated public number database.

The ACA may give written directions to a Carrier or CSP or Content Service Provider in connection with exercising any of the ACA's powers. Breach of such a direction is subject to a maximum Federal Court imposed penalty of A$10 million.

Item 1: Description of Business

Network Operations

Powers and Immunities

Prior to 1 July 1997, Carriers had extensive rights to install facilities on public and private land without land owner consent and with immunity from State and Territory building, environmental, occupational health and safety laws and local planning regulations. Effective 1 July 1997, these rights have been restricted to: aerial cabling commonly used for Broadband services installed by 30 September 1997 and any other facilities installed by 31 December 1997, that have been determined by the Communications Minister to be low impact facilities; temporary defence facilities; facilities authorised by a facility installation permit issued by the ACA; connecting premises before 1 July 2000 to a network any part of which was in existence at 30 June 1997; and the inspection, maintenance and, in many cases, replacement of existing facilities. Any such activities are subject to an obligation to restore land and pay compensation to land owners and are subject to a Telecommunications Code of Practice providing for notice and objection mechanisms. The Secretary to the Commonwealth Department of the Environment may impose conditions on certain activities. The ACA's power to issue a facility installation permit is subject to stringent conditions.

Subject to Parliamentary disallowance, low impact facilities include many of the facilities routinely used in constructing networks, except aerial cabling and towers and certain other facilities depending upon their location in a residential, commercial industrial or rural area. No facilities in areas of particular environmental or Aboriginal and Torres Strait Islander significance are low impact. All Carrier activities remain subject to laws protecting places of cultural significance to these groups and Torres Strait Islanders (including native title laws).

Facilities other than those described above may only be installed with the agreement of the relevant land owner and in compliance with all relevant State, Territory and local laws or through the facility installation permit powers. These limitations on Carrier powers and immunities may lead to delay or prohibition of the rollout of certain additional Telstra network facilities. The limitations can be expected to have a greater proportional impact on the activities of new Carriers who have no existing network.

If all non-telecommunications overhead cables attached to a pole are placed underground, any Carriers using those poles for any telecommunications cables must, within six months, place those cables permanently underground unless a local authority consents to the cables remaining in place.

A State, Territory or local law must not discriminate against a Carrier or Carriers, unless allowed by the Communications Minister.

Statutory Limitation of Liability

In most comparable countries, the providers of telecommunications services have statutory caps on their liability in tort for damages claims. The ACA has power to impose such a cap but to date has not done so.

Number Portability

Number portability allows customers to switch to another Carrier or CSP while retaining the same telephone number.

The ACA has put in place a numbering plan for Australia. The plan sets out rules about number portability as directed by the ACCC which has mandated portability for local services, 1800 services and 13 services. The ACCC also required the ACA to set an implementation date for each portable service after consulting with the ACCC and considering technical feasibility. The terms and conditions on which CSPs supply number portability are to be set by commercial negotiation or arbitration. The Communications Minister may issue a number portability pricing principles determination which would govern any arbitration.

Carriers are obliged to provide limited number portability for local services. Portability is currently being provided only for single line services and the industry is developing a Code to deal with issues regarding portability for more complex services. The ACA is presently holding an inquiry to review the type of technology required to meet the requirements of full number portability. It is currently intended that full number portability will be implemented by 1 January 2000.

If the kind of local number portability services required by the ACA is different from that currently agreed between Telstra and Optus, Telstra may have to incur substantial additional capital expenditures to effect that implementation and may not be able to recover those costs from other CSPs. The ACCC has also indicated its preliminary view is that, in the near future, mobile number portability is likely to be required. Telstra believes that compliance with any such requirement would be likely to require significant capital expenditure and the resolution of numerous technical issues. Telstra may not be able to recover its costs of providing number portability in full from other CSPs.

Telstra is also subject to an interim licence condition which requires the provision of local number portability services, where requested by Optus, on specified terms and conditions until longer term arrangements are set under the provisions of the 1997 Act. In complying with these interim licence conditions, Telstra expects that it will only recover part of its costs of providing local number portability services to Optus. Accordingly, Telstra will pursue appropriate commercial arrangements by the negotiation and, if necessary, arbitration processes.

The ACCC has issued a draft paper suggesting pricing principles which it would apply in the event it was required to arbitrate in relation to terms and conditions for the provision of local number portability. These draft principles suggested that each party should bear its own costs of supply. Telstra has made several submissions to the ACCC regarding these principles, and expects a further paper from the ACCC.

Item 1: Description of Business

Inbound number portability affects Telstra's inbound call services including Freecall™ 1800, Priority®, One3 and Priority®, 1300. For inbound number portability, the implementation date has not been finalised by the ACA. Telstra has been working with the industry to assist the ACA to finalise the technical and organisational methodology to implement inbound portability which would enable the implementation date to be set. Originally expected in 1998, it could be anticipated that, pending resolution of a range of issues, inbound number portability may occur in calendar 1999. The pricing principles described above with respect to local number portability may also apply to inbound services.

Preselection and Override Codes

Preselection allows customers, while connected to a CSP, to specify another CSP to provide certain telecommunications services. Override Codes allow a customer to select a different CSP on a call-by-call basis.

The ACA has set a preselection requirement for CSPs relating to certain basic telecommunications services. Initially, the requirement is to provide the preselection of one CSP for both national long distance and international voice calls and certain operator services. An override function for those voice calls must also be provided. The industry agreed that this must be made available by all CSPs by 24 September 1998. ACA may later require the availability of preselection of different CSPs for different call types. The ACA is investigating the desirability and feasibility of the preselection of fixed to mobile calls. The ACA is likely to issue a decision on this issue in the last quarter of calendar 1998. Preselection of fixed-to-mobile calls could, in certain circumstances, have a significant adverse effect on Telstra's current level of revenues from these services.

Analogue AMPS Network Closure and Radio-Communications Spectrum

The 1997 Act provides for the closure of Telstra's analogue AMPS mobile telecommunications network by 31 December 1999 and has prohibited the installation and operation of any other analogue AMPS mobile telecommunications networks. However, subject to agreement between Telstra, Optus, Vodafone and the Government, Telstra may continue to operate its analogue AMPS network in certain non-metropolitan areas for a maximum further 12 month period. This would enable Telstra to deploy an 800MHz digital cellular network which will meet the Government's policy of providing reasonably equivalent mobile service in those non-metropolitan areas where there is no alternative equivalent mobile service. Industry participants recently bid at an auction to acquire rights to the 800MHz spectrum. The auction concluded in May 1998, with the successful applicants being Telstra, AAPT, Hutchison Telecommunications (Australia) Limited (Hutchison) and OzPhone Pty Ltd (OzPhone). Telstra is required by a licence condition to provide to AAPT, Hutchison and OzPhone, or a Carrier authorised by any of them, resale of its analogue AMPS mobile telecommunications services for a limited period. The licence condition also establishes reciprocal roaming rights between the digital services operated in the 800MHz bands and the AMPS service.

Spectrum in the 1800MHz band was auctioned simultaneously with the 800MHz spectrum. It was acquired primarily by the existing mobile telecommunications Carriers, Telstra, Optus, Vodafone and new entrant, One.Tel Ltd. Catapult Communications Pty Ltd acquired a minor amount.

Interception

As part of the obligation of Carriers to cooperate with law enforcement agencies, they must (unless exempted by the Communications Minister) ensure that telecommunications services passing over their networks can be intercepted by agencies who hold an interception warrant. This requirement can lead to delay in the launch of particular carriage services until the services can be made interceptible. Recent changes to the legislation require the Carriers to bear some of the costs of providing interception capability.

Universal Service Obligation

Telstra is the national universal service provider. As a result, it must take all reasonable steps to ensure that certain basic telecommunications services, payphones and any telecommunications services prescribed by regulation are reasonably accessible to all people in Australia on an equitable basis. The Universal Service Obligation also extends to making services for disabled persons and particular customer equipment, such as specialised telephone handsets, reasonably accessible. In addition, the Communications Minister may determine a system to select Carriers to be a national universal service provider for a particular service or a regional universal service provider for particular areas, such as by competitive tender.

Telstra must take all reasonable steps to comply with a plan to fulfil its Universal Service Obligations, prepared by Telstra and approved by the Communications Minister. The Communications Minister is required to consider whether a digital data carriage service broadly comparable to that provided by an ISDN data channel with a transmission speed of 64 kilobits per second should be prescribed from 31 December 1998. The ACA report on this issue has recommended against this requirement. The Communications Minister may impose price control arrangements on the supply of telecommunications services under the Universal Service Obligation which are not already governed by price control arrangements under the Telstra Corporation Act 1991 (Cth) (Telstra Act). The costs incurred by Telstra in fulfilling its Universal Service Obligation will, in part, be offset by a levy charged to the other Carriers which is calculated by reference to their relative proportion of total industry eligible revenue. The Communications Minister has only recently defined eligible revenue. The Communications Minister may develop principles which would allow Telstra to partly recover only those of its costs which the Communications Minister regards as non excessive.

Customer Service Guarantee

At the direction of the Communications Minister, the ACA has made mandatory standards for CSPs in relation to the supply of Standard Telephone Services to customers. These Customer Service Guarantee (CSG) standards have been in effect since 1

Item 1: Description of Business

January 1998. If a CSP contravenes a standard, it is liable to pay damages to affected customers, as an account credit, in an amount specified by the ACA not to exceed A$25,000 in total.

The current standards relate to connection times, fault repair times and the keeping of appointments in relation to these activities. The CSG penalty payments for missed appointments are monthly telephone line rentals. For delayed connections and repairs, the penalty rates are monthly line rentals for each working day of delay up to five days and A$40 per working day of delay thereafter. A review of the CSG Standard is being conducted by the ACA at the request of the Communications Minister with a view to tightening performance standards where practicable, for effect on 1 January 1999.

Broadcasting Regulation

The Government is currently reviewing broadcasting regulation in several areas. These include: provisions affecting the terms and conditions on which pay television operators retransmit free-to-air television services; anti-siphoning rules which regulate the acquisition of rights of television operators to televise certain events; the basis on which digital terrestrial television may be introduced in Australia; and requirements concerning Australian content on pay television, including the feasibility of increasing the current expenditure on Australian drama.

Recent legislation will permit free-to-air television broadcasters (FTAs) to use 7MHz of loaned spectrum to supply digital television. Digital broadcasting, simulcast with analogue for eight years, must commence by 1 January 2001. There must be a review by 1 January 2000 which will determine the regulatory arrangements concerning use of broadcasting spectrum for datacasting by players other than the FTAs, and whether the FTAs will be permitted to provide multi-channel services. Following this review, subject to the vote of both Houses of Parliament, the FTAs will be able to use the spare loaned spectrum for datacasting.

Future Regulation

On 30 March 1998 the Federal Government introduced the Telstra (Transition to Full Ownership) Bill 1998 (the Bill) to amend the Telstra Act to allow for the sale of the Government's remaining shareholding in the Company. On 11 July 1998 the Bill was defeated in the Senate of the Australian Parliament. The main Opposition Party has stated that if elected it would not support the further privatisation of the Company. On 22 July 1998, the Communications Minister announced that the Bill would be reintroduced to the Parliament to allow for a sale of a further 16 per cent of the Commonwealth's shareholding, but that no further Shares would be sold until an independent inquiry had verified that Telstra's service levels were adequate. In addition to changes to the Telstra Act, the Federal Government has proposed that the passage of any sale legislation will also involve changes to several aspects of the regulatory regime.

In relation to consumer regulation, the Government has proposed that the ACA should be provided with a power to review systemic failures to meet the performance standards on the basis of the CSG. Where such a systemic failure is found, the ACA would be given a power to direct a CSP to comply with the standards, and penalties of up to A$10 million could be imposed for breach of such a direction.

In relation to competition regulation, the Government has proposed that several changes should be made to the telecommunications-specific provisions of the Trade Practices Act. First, the ACCC's ability to require a CSP to maintain certain information and records would be clarified, with an additional and very wide ranging power granted to the ACCC to require public disclosure of such information. Telstra believes this could result in sensitive cost information being published to Telstra's commercial detriment. Further, the ACCC would be given expanded powers to participate in access negotiations, and to direct access seekers and access providers. Persons would be able to seek injunctive relief for an alleged breach of the competition rule prior to the ACCC having issued a competition notice. This would likely lead to an increase in litigation against Telstra.

These amendments are subject to further Government and Parliamentary processes so the future progress of the amendments is uncertain.

Item 2: Description of Property

A large part of Telstra's network is constructed on land occupied pursuant to statutory powers and immunities. Telstra also owns and occupies land and although Telstra's real property assets are not individually large in area, they include some strategic sites, such as the properties on which its telephone exchanges are located. Telstra owns approximately 5,500 freehold sites and occupies approximately 5,500 sites on a leasehold or other basis. Most of Telstra's sites are related directly to its telecommunications operations and are used for housing network equipment of various types, such as telephone exchanges, transmission stations, microwave radio equipment and mobile radio repeater equipment. Some of Telstra's operational sites are situated on leased land or land to which Telstra has access by statutory right or other formal or informal arrangement. In addition to its operational sites, Telstra owns or leases a range of properties for office accommodation, storage and other miscellaneous purposes.

Telstra's network is constructed with built-in diversity to ensure that customer service is retained to the maximum extent after a major event, and that restoration is rapidly achieved. The computer systems used by Telstra for the processing of data for billing purposes are situated principally in one location. The Company has not established back-up processing facilities for processing this data in the event of the destruction or substantial impairment of its primary processing facilities, which could occur, for example, as a result of fire, flood or other disaster. Were such an event to occur, the Company could experience delays in the processing of customer bills and in the receipt of related payments. However, a Disaster Recovery Plan exists to effectively manage such a situation. Telstra believes that its

Item 2: Description of Property

properties are in good operating condition and has in place a level of insurance consistent with industry practice.

As at 30 June 1998, Telstra had become a party to some 424 native title claims to parcels of land in Australia in order to ensure that its rights to continue to have existing infrastructure located on that land are recognised should a native title determination be made in favour of the claimants. Telstra believes that any determination of native title will be subject to the continuing presence of Telstra infrastructure validly installed prior to the commencement of the Native Title Act 1993 on 1 January 1994. Telstra has been advised that facilities installed after this date pursuant to statutory powers under the Telecommunications Act 1991 will also receive the protection of the validation provisions in the Native Title Act 1993.

In certain circumstances, the Commonwealth may be required to compensate native title holders where the construction of infrastructure on land prior or subsequent to 1 January 1994 has extinguished or impaired native title. Telstra may be required to indemnify the Commonwealth for any compensation paid to native title holders in respect of any act performed by the Commonwealth relating to telecommunication services prior to 1 July 1975. Telstra may also be directly liable in certain circumstances to pay compensation to native title holders for its activities on native title land.

The quantum, if any, of such liabilities is not known but will depend in each case on the nature and extent of the native title rights and interest determined to exist and the degree to which Telstra's activities have impinged on or restrict the exercise of those rights. As no claims for compensation have been brought involving Telstra (with the result there is no factual position to assess) the extent of Telstra's liability to contribute to compensation cannot be assessed.

The land access powers conferred on Carriers by the 1997 Act are more limited than those conferred by previous legislation. For this reason, Telstra presently has to negotiate with native title holders and claimants to a greater extent than was previously required in order to lawfully access and use land over which native title may exist. These processes may also require co-operation with the relevant State or Territory Governments.

However, the Native Title Act 1997 (Cth) which will commence on 30 September 1998, will make it considerably easier for Telstra to access land subject to native title claims for the purposes of the construction of telecommunications infrastructure for the general public. Again, native title holders will have rights of compensation, which could be recovered against Telstra.

Native Title Proceedings

As at 30 June 1998 Telstra was a party to some 24 proceedings in the Federal Court of Australia in addition to 400 native title claims presently before the National Native Title Tribunal which, if no agreement is reached during the compulsory mediation phase, will proceed to the Federal Court for resolution. In each of these claims the applicants seek a determination by the Federal Court that native title exists in specified areas including areas where Telstra has telecommunications facilities. These are not claims for money. The main respondent party in each proceeding is the relevant State or Territory. Telstra has elected to become a party to ensure that its existing telecommunications facilities in the areas subject to claim are, in the event native title is determined to exist, noted as interests to which that native title is subject. To do this involves an inquiry as to the basis of Telstra's occupation rights. Only if Telstra is not able to demonstrate the validity of its present occupation rights will there be any adverse outcome for Telstra. In almost all of these claims, Telstra is or will be able to do this. Telstra does not anticipate that the validity of the installation of Telstra's facilities will be contested by the applicants.

Item 3: Legal Proceedings

The Company is involved in a number of legal proceedings in the course of its business. Except for the proceedings described below, the Company is not a party to any legal or arbitration proceedings which could reasonably be expected to have a significant adverse effect on the Company's business or financial position taken as a whole. From time to time, governmental authorities or third parties may threaten legal proceedings against the Company. Telstra is not aware of any such threatened proceedings which would be reasonably likely to have a significant adverse effect on the Company's business or financial position taken as a whole.

On 10 September 1997 Optus and two of its subsidiaries, Optus Networks Pty Ltd (Optus Networks) and Optus Vision, commenced proceedings in the Federal Court of Australia against Telstra, Telstra Media Pty Ltd (Telstra Media) and Sky Cable Pty Ltd (Sky Cable), a subsidiary of News Corporation. The claims against Telstra Media and Sky Cable have since been discontinued. The claims made against Telstra assert that Telstra has acted in breach of section 46 of the Trade Practices Act (misuse of market power provision) by taking advantage of a substantial degree of power in various markets for prohibited purposes. The asserted misconduct relates to an alleged refusal by Telstra to supply local number portability and local call access and resale services to Optus on reasonable terms and conditions. Optus also asserts that Telstra has breached section 46 of the Trade Practices Act by reason of the arrangements for the supply of Pay TV carriage services from Telstra to FOXTEL and certain arrangements concerning the construction of the Telstra Broadband Network. Optus claims unquantified damages including interest. Telstra believes, on the information currently available, that it has substantial defences to these claims and will continue to defend the action vigorously. If Optus is successful in the litigation, it could have a material adverse effect on Telstra's financial results, operations and competitive position.

Telstra is currently involved in significant litigation with four of its wholesale customers - AAPT, First Netcom Pty Ltd (First Netcom), QAI Australia Ltd/Southern Cross Telco Pty Ltd (QAI) and I-Tel Pty Ltd (I-Tel). These proceedings (other than I-Tel) generally involve claims by Telstra for substantial charges it believes remain unpaid for the provision by Telstra of

Item 3: Legal Proceedings

telecommunications services and cross claims by the wholesale customers for substantial amounts. The wholesale customers dispute that the amounts claimed by Telstra or any amounts are owing by them, and typically contend that they are entitled to offset their claims against amounts claimed by Telstra. The wholesale customers typically allege that bills were not received, were inaccurate and/or that Telstra's billing and account management systems were defective in other ways. The wholesale customers' cross claims typically include claims for revenue allegedly foregone by reason of delayed on-billing of third party customers and/or loss of customers and/or revenue from incorrect or delayed billing, and include claims on the basis of alleged breaches by Telstra of the Telecommunications Act 1991, Trade Practices Act, fiduciary duties and/or contract and/or for unconscionable conduct. It is not possible on the information currently available to form a precise view as to the likely outcome of the various proceedings.

The proceedings against AAPT have been set down for trial in the Federal Court of Australia and involve a claim by Telstra for an amount of approximately A$119 million. AAPT has filed a defence denying that it owes the sums claimed or any sum, and a cross claim against Telstra seeking damages and other relief. In the cross claim, AAPT asserts losses which it estimates to be in the order of A$300 million. Telstra's proceedings against First Netcom commenced in April 1997, and are currently being conducted in the Federal Court of Australia and involve a claim by Telstra for A$15 million. First Netcom have filed a defence denying the sums claimed and a cross claim seeking damages and other relief. Although the cross claim does not specify the amount of the damages claimed, First Netcom has asserted that it estimates its losses to be up to approximately A$37 million. QAI commenced proceedings against Telstra in the Federal Court of Australia on 21 March 1997. QAI has indicated that it seeks an amount of approximately A$14 million based on a claim including alleged breaches of the Trade Practices Act, breach of contract and fiduciary duties and unconscionable conduct. Telstra has filed a defence and a cross claim against QAI seeking an amount of approximately A$6.9 million. QAI has filed a defence to the cross claim denying the sum claimed by Telstra. Telstra intends to amend its cross claim to claim an amount of approximately A$5.5 million.

In August 1995, British Telecom Australasia Pty Limited (BTA) commenced proceedings in the Federal Court of Australia against the State of New South Wales (NSW) and Telstra arising out of BTA terminating a 1992 telecommunications and data network services supply agreement between BTA and NSW. Subsequently, BT made similar claims against Telstra and NSW. BTA and BT have so far asserted claims for direct damages, jointly against Telstra and NSW of approximately A$315 million in expectation damages and approximately A$155 million in reliance damages. The allegations include claims that Telstra misused market power, engaged in misleading and deceptive conduct and induced NSW to breach its obligations under the agreement. BTA has also claimed contribution and indemnity from Telstra for any damages awarded to NSW on its cross claim against BTA for substantial damages, including damages of approximately A$467 million and other damages not quantified in the current pleading. Telstra and NSW have filed cross claims against each other in relation to the amounts claimed by BTA and BT. It is not expected that a trial will commence before February 1999. Telstra believes that it has substantial defences to and intends to defend vigorously these claims. Telstra's management further believes BTA's claims are unlikely to result in a material adverse effect on future results of operations.

The Company was the subject of proceedings by the ACCC seeking to restrain the completion of the proposed merger between Australis and FOXTEL and claiming that the agreement between Telstra, News Corporation and Australis under which FOXTEL receives certain programming from Australis, including two movie channels and a sports channel, is void on the basis that it was in breach of the Trade Practices Act. Following termination of the proposed merger, the ACCC discontinued the proceedings in November 1997.

On 14 November 1997, Australis Media Holdings Ltd (AMH) and Galaxy, subsidiaries of Australis, commenced proceedings in the Supreme Court of New South Wales claiming damages and other relief from Telstra and News Corporation arising from alleged misleading and deceptive conduct in connection with entering into a programming agreement with AMH and Galaxy in March 1995 and an alleged breach of an obligation to use its best endeavours to ensure that the rollout of a Broadband Network passed 4 million homes by 30 June 1999. Prior to the proceedings, Telstra, News Corporation and FOXTEL had entered into an agreement reducing the number of homes in the rollout of the Broadband Network. The programming agreement between AMH, Galaxy, Telstra and News Corporation required the establishment of a Broadband Network passing 2.5 million homes by the end of December 2000. Telstra completed the rollout of its Broadband Network past 2.5 million homes during calendar year 1997. Telstra denied that it is under any further obligation to AMH and Galaxy to roll out the Broadband Network to 4 million homes. On 21 August 1998, Australis and Galaxy amended their claim in these proceedings to delete the allegation of misleading and deceptive conduct and narrow the contractual claims. Australis and Galaxy quantify the damages claimed in the proceedings, as amended, as US$3,282,950.

In 1994, claims were made against Telstra by a group of small businesses who refer to themselves as the Casualties of Telecom/Telstra (COTs). As a result of the complaints made by the COTs, in 1994 the Australian Telecommunications Authority (AUSTEL) conducted an investigation into Telstra's handling of the COTs' complaints. AUSTEL made a number of recommendations for improvements to Telstra's systems for handling complaints of service difficulties and recommended that Telstra and the COTs enter into an arbitration process. All claims have now been settled or have been decided by the arbitrator without a material adverse effect on Telstra's financial results or financial position.

In January 1998, Telstra and the Commissioner of Taxation reached agreement on a settlement of a number of disputes relating to the tax consequences of items which date back to when Telstra first became subject to the Income Tax Assessment Act 1936. The settlements did not have a material adverse effect on Telstra's financial results or financial position.

Item 4: Control of Registrant

The following table sets forth, as at 28 August 1998, the holdings of each person known to Telstra to be the owner of more than ten per cent of Telstra's voting securities and the holdings of Directors and Executive Officers of Telstra, as a group, of Telstra's voting securities.

Title of Class	Identity of Person or Group	Amount owned	% of class
Shares	The Commonwealth	8,582,719,207	66.7%
Shares	Telstra Instalment Receipt Trustee Ltd	4,283,880,993	33.3%
		12,866,600,200	100.0%
Instalment holding via the Telstra Instalment Receipt Trustee Ltd	Directors and Executive Officers as a group	441,910(1)	

(1) Refers to direct and indirect holdings

Telstra Instalment Receipt Trustee Limited has been established to hold Telstra Shares until payment of the final instalment on 17 November 1998. Holders of IRs carry the same voting and dividend rights as fully paid Shares. After payment the holder of the IR will be registered as the holder of the Shares and the IRs will be cancelled. As at 28 August 1998, Telstra is not aware of any IR holders whose IRs represent more than 10 per cent of the issued and outstanding Shares.

Distribution of Instalment Receipt Holdings as at 28 August 1998

The following table summarises the distribution of registered IR holders.

Size of Holding	IR holders* Number	%	IRs Number	%
1 - 1,000	933,574	66.0	669,781,056	15.6
1,001 - 2,000	245,182	17.3	411,367,825	9.6
2,001 - 5,000	190,183	13.5	548,858,605	12.8
5,001 -10,000	34,920	2.5	253,961,043	5.9
10,001 - 100,000	9,131	0.6	178,749,582	4.2
100,001 and over	514	0.1	2,221,162,882	51.9
Total	1,413,504	100.0	4,283,880,993	100.0

** Number of IR holders holding less than a marketable parcel of 111 IRs was 1,178*

Twenty Largest Instalment Receipt Holders as at 28 August 1998

The following table sets out the top 20 holders of IRs when multiple holdings are grouped together.

	IR Holder	Number of IRs	% of Issued IRs
1	Westpac Custodian Nominees Limited	350,056,372	8.1
2	Chase Manhattan Nominees Limited	230,823,273	5.4
3	National Nominees Limited	182,927,668	4.3
4	Telstra ESOP Trustee Pty Limited	135,675,679	3.2
5	Permanent Trustee Australia Limited	106,145,580	2.5
6	AMP Life Limited	92,059,601	2.1
7	Queensland Investment Corporation	67,104,306	1.6
8	BT Custodial Services Pty Limited	67,078,876	1.6
9	ANZ Nominees Limited	65,199,603	1.5
10	Citicorp Nominees Pty Limited	62,014,845	1.4
11	MLC Limited	59,215,493	1.4
12	Commonwealth Custodial Services Limited	55,431,642	1.3
13	SAS Trustee Corporation	43,917,640	1.0
14	Permanent Trustee Company Limited	41,246,976	1.0
15	Perpetual Trustees Victoria Limited	37,322,172	0.9
16	Perpetual Trustee Company Limited	35,419,731	0.8
17	HKBA Nominees Limited	28,940,320	0.7
18	Perpetual Trustees Nominees Limited	26,792,360	0.6
19	NRMA Investments Pty Limited	23,234,600	0.5
20	The National Mutual Life Association of Australasia	21,045,205	0.5
	Total	1,731,651,942	40.4

Substantial Shareholders

As at 28 August 1998, other than the Commonwealth of Australia and the Trustee, there were no substantial shareholders (as defined in the Australian Corporations Law) in the Telstra Entity.

Relationship with the Commonwealth of Australia

The Commonwealth has a number of distinct relationships with Telstra, including as shareholder, regulator and customer. The Commonwealth is the controlling shareholder in Telstra and has special rights and privileges under the Telstra Act. Telstra's relationship with all of its shareholders including the Commonwealth is, in general, regulated by the Australian Corporations Law, the ASX Listing Rules and Telstra's Articles of Association. Commonwealth departments and agencies are also responsible for the regulation of the telecommunications industry generally and Telstra in particular under the Telstra Act, the Trade Practices Act and the 1997 Act.

Item 4: Control of Registrant

The Commonwealth as Shareholder

The Commonwealth owns 66.7 per cent of the Shares of the Telstra Entity. The Telstra Act precludes any reduction in the Commonwealth's voting rights, paid-up capital or rights to distributions of capital or profit, if any, below a two-thirds interest in Telstra without amending legislation. The effect of this is that Telstra cannot introduce a dividend reinvestment plan or raise new equity capital without Commonwealth participation. There can be no assurance that the Commonwealth would be willing to subscribe for additional Shares in Telstra and Telstra's ability to raise additional equity capital could be constrained as a result.

The Telstra Act requires Telstra to provide the Commonwealth with certain information that the Company would not generally be required to disclose concurrently, if at all, to other shareholders. This information includes: (i) annual provision of the Company's three year corporate plan and any periodic changes to the plan; (ii) interim financial statements, if requested by the Communications Minister; and (iii) reports regarding significant proposed events, including corporate restructurings, acquisitions and divestitures or joint venture and partnership activities. Telstra is also required to keep the Communications Minister and the Minister for Finance and Administration (Minister for Finance) generally informed about the operations of Telstra and to give them such information in relation to the Company's operations as they require. Representatives of Telstra are to continue to be required to appear before and, with limited exceptions, provide information to Parliamentary Committees.

Under the Telstra Act, the Communications Minister has the power to give Telstra, after consultation with the Board of Directors, such written directions in relation to the exercise of the powers of Telstra as appear to the Communications Minister to be necessary in the public interest. No directions have been issued under this power in the past. Telstra's Board of Directors has a duty to ensure that the Company complies with any such direction. The Communications Minister is not permitted to give such directions in relation to the amounts to be charged for work done, or services, goods or information supplied, by Telstra. The Communications Minister, however, has some discretionary powers in relation to charges. The leader of the main Opposition Party has stated that the main Opposition Party strongly supports retention by the Commonwealth of the power of direction over the Company when it is in the national interest, particularly to ensure universal provision of services and the development of Australian industry.

The Telstra Act deems the Commonwealth Auditor-General to have been appointed as the auditor of Telstra for the purposes of the Australian Corporations Law. The Auditor-General cannot be removed without legislative amendment. The Auditor-General has various powers under the Audit Act 1901, including the power to conduct project performance audits on the Company's operations.

The Commonwealth, as holder of 66.7 per cent of the Shares in the Telstra Entity, like any other majority shareholder in an Australian company, has the ability to control the Company. This includes the power to pass any resolution at a shareholders' meeting requiring a simple majority (including the appointment of Directors) with the exception of matters upon which the Commonwealth is not permitted to vote under the Corporations Law or applicable listing rules. The Commonwealth may be able to achieve the passing of any resolution requiring the approval of the holders of three quarters of the Shares in Telstra present and voting at a meeting (a special resolution), such as amendments to Telstra's Memorandum and Articles of Association, since the Shares in Telstra not owned by the Commonwealth are widely dispersed among Telstra's shareholders.

The Commonwealth has a set of general policies which apply to partially owned government business enterprises, which provide significant commercial freedoms in the conduct of their business, subject to the oversight of appropriate Ministers. These general policies are applied to Telstra as outlined above principally by the Telstra Act and the Company's Articles of Association.

The Government has indicated it will seek to sell the remainder of Telstra in stages if re-elected on 3 October 1998. The first sale will be of 16 per cent, which will leave 51 per cent, and majority control, in Government hands. No further sale, beyond 49 per cent will be possible until the Government has established an independent inquiry which will assess Telstra's service levels to customers in each of metropolitan, rural and remote areas against the prescribed standards. The new consumer protection legislation will specify the performance criteria which the inquiry will use in testing whether Telstra's performance in maintaining service levels has been adequate. Those criteria will build on those which underpin the current arrangements, and will be developed in consultation with all interested sections of the community. Unless and until the independent inquiry certifies that service levels are adequate, there will be no further sell down beyond 49 per cent.

The main Opposition Party has announced that it has no current plans for any further sale of the Commonwealth's shareholding in Telstra.

The Commonwealth as Regulator

Telstra is currently regulated by the Commonwealth under a number of statutes including the Telstra Act, the Trade Practices Act and the 1997 Act. The Commonwealth's role as regulator is independent and distinct from its role as shareholder. The Government sees the legislation which established the current regime as providing the fundamental legal and institutional reforms required to enhance competition within the Australian telecommunications industry. The framework provided by the legislation is expected to be the basis for regulation of the industry for some time. Like other regulatory regimes, the Government does not expect the current regime to remain static. It will change over time in light of experience and new developments in the industry. The leader of the main Opposition Party has stated that the main Opposition Party does not currently intend to make significant changes to the existing regulatory environment if it became the Government. The Government or any future Government, however, may change its policy as to the regulation of the telecommunications

Item 4: Control of Registrant

industry, which may adversely affect the competitive position or results of operation of the Company.

Telstra is also subject to a range of Commonwealth legislation, some of which does not apply to its competitors. This legislation covers a wide range of areas including administrative law, environmental law and employment related law. Subject to any exceptions that may be determined by the Commonwealth, the Government decided in June of 1997 to exempt Telstra and its other business enterprises from the application of statutory administrative law, subject to the passage of necessary legislation. To date, no such legislation has been passed so the obligations remain. Similarly, the Government has agreed to exempt Telstra from Government purchasing policies.

The Commonwealth as Customer

The Commonwealth is a major user of Telstra's services with total recent annual expenditures of between A$300 million and A$400 million which Telstra believes comprises approximately 80 per cent of the Commonwealth's spending on telecommunications services. The Commonwealth, as a result of telecommunications liberalisation, is moving toward a whole-of-government approach to the purchase of telecommunications services and will increasingly seek to take advantage of open competition when purchasing telecommunications services. This may result in a reduction of business being awarded to Telstra.

Item 5: Nature of Trading Market

Since 17 November 1997 the principal listing of the IRs has been the ASX. The IRs are also listed on the New Zealand Stock Exchange (NZSE). Interim ADSs, each representing 20 IRs evidenced by Interim ADRs, have been issued by the Bank of New York as Depositary, and are listed on the New York Stock Exchange (NYSE). IRs and Interim ADSs are also quoted on Stock Exchange Automated Quotation (SEAQ) International. The IRs were included in the Australian Stock Exchange (ASX) All Ordinaries Index and relevant Sub-Indices on 1 January 1998.

In November 1998, upon payment of the final instalment, holders of IRs and Interim ADSs will become entitled to Shares and ADSs. These will be traded and/or quoted on the same exchanges as IRs and Interim ADSs.

The stock market operated by the ASX is the principal stock exchange in Australia. The exchange operates by way of the Stock Exchange Automated Trading System (SEATS), which is a fully computerised system.

Trading on SEATS takes place each business day between the hours of 10:00 am and 4:00 pm, Australian Eastern Standard Time or Australian Eastern Standard Summer Time. At 4:05 pm each day, the ASX subsequently matches any buy and sell orders in the system which are at the same price. The prices of all listed Shares are continuously quoted while the market is open and the system prioritises orders first by price and second by time of placement in the system. Exchange participants can cross stock between buying and selling orders, at the buy or sell quote provided those quotes are no more than one marketable bid apart and can cross outside this range in amounts of A$1 million or more. Transactions on the ASX are settled on the fifth business day following the trade date although, in the short term, the ASX intends to change the settlement period to the third business day.

The following table sets out, for the periods indicated, the highest and lowest closing sale prices for IRs as derived from the Daily Official List of the ASX, and the highest and lowest closing sale prices of the Interim ADSs quoted on the New York Stock Exchange.

Period	A$ per IR		US$ per Interim ADS	
	High	Low	High	Low
1997				
17 November - 31 December	3.25	2.53	42 3/16	35 9/16
1998				
1 January - 31 March	3.98	3.09	54 3/8	40 1/8
1 April - 30 June	4.14	3.58	51 1/4	41 15/16

At 30 June 1998, 4,283,880,993 IRs were outstanding. At that date, approximately 1,419,356 Interim ADSs (equivalent to 28,387,120 IRs) were held by approximately 13 record holders.

Item 6: Exchange Controls and Other Limitations Affecting Security Holders

Absence of Exchange Controls

The Reserve Bank of Australia does not currently inhibit the import and export of funds, and no approval is currently required for the movement of funds in and out of Australia. However, payments to or from (or relating to) Iraq, its agencies or nationals, the Government of Libya or any undertaking owned or controlled by Libya or its agencies or the authorities of the Federal Republic of Yugoslavia (Serbia and Montenegro) or their agencies may not be made without the specific approval of the Reserve Bank of Australia.

Accordingly, at the present time, remittances of any dividends, interest or other payment by Telstra to non-Australian holders of its securities are not, subject to the above, restricted by exchange controls or other limitations.

Restrictions on Foreign Ownership

Telstra Act

The Telstra Act provides that an "unacceptable foreign ownership situation" will exist in relation to Telstra if all "foreign persons" and their associates hold, in total, a "particular

Item 6: Exchange Controls and Other Limitations Affecting Security Holders

type of stake" in Telstra as a whole of more than 11.6667 per cent (the "Aggregate Limit") or if any foreign person and its associates hold a particular type of stake in Telstra as a whole of more than 1.6667 per cent (the "Individual Limit"). "Foreign person", "associate", "group", "particular type of stake", "direct control interest" and "interest" in a share are all defined in the Telstra Act and are summarised below under "Definitions".

Where an acquisition of Shares or interests in Shares in any company results in: (i) an unacceptable foreign ownership situation in relation to Telstra; (ii) an increase in the total of any type of stake held by any group of foreign persons in Telstra where there exists a breach of the Aggregate Limit; or (iii) an increase in any type of stake in Telstra held by any foreign person who is already in breach of the Individual Limit, and the person acquiring the Shares knew or was reckless as to whether the acquisition would have that result, that person is guilty of an offence punishable on conviction by a fine not exceeding A$40,000.

The Communications Minister or Telstra may apply to the Federal Court for remedial orders where an unacceptable foreign ownership situation exists, including orders requiring the disposal of Shares, restricting the exercise of rights attaching to Shares or prohibiting or deferring receipt of sums due on Shares. In addition, Telstra is required under the Telstra Act to take all reasonable steps to ensure that an unacceptable foreign ownership situation does not exist in relation to Telstra.

The Trust Deed and Telstra's Articles of Association both contain provisions designed to enable the Trustee, while IRs remain on issue, (the IR period) and Telstra (thereafter) to monitor and enforce the foreign ownership restrictions.

On or after registration of a transfer or transmission application in respect of an IR or Share where the acquirer first becomes an IR or Share holder, the acquirer must generally notify the Trustee (during the IR period) or Telstra (thereafter) whether it is either: (i) a person with an interest in an IR or a Share who is either a foreign person or an associate of a foreign person; or (ii) a person who holds an IR or a Share in which a foreign person or an associate of a foreign person has an interest (in either case, a Foreign Holder).

The information derived from these notifications will be reflected in a Register by means of a Foreign coding.

Where IRs or Shares are traded on the ASX, systems are expected to be established for such notifications to be given by brokers as part of routine provision of ASX settlement information (the ASX systems). Each of the Interim ADR Custodian and ADR Custodian under the Interim ADR and ADR facilities will automatically be treated as a Foreign Holder for the purposes of the Trust Deed and Articles of Association, as were all purchasers of IRs and Shares in the International Offering and New Zealand purchasers in the Australian Offering and all holders of IRs or Shares on the New Zealand IR or Share Register. In the case of other transfers or transmission applications, the onus will be on the acquirer to notify the Trustee or Telstra if it is a Foreign Holder. Neither The Depository Trust Company nor Morgan Guaranty Trust Company of New York, Brussels Office, as Operator of the Euroclear System, will monitor any transfer or foreign ownership restrictions.

All the IRs or Shares held by Foreign Holders will be treated as Foreign unless the holder: (i) notifies that some of its IRs or Shares are ones in which a foreign person or associate of a foreign person has an interest (Foreign IRs or Foreign Shares) whereas others are not; and (ii) either (a) divides its holding into separate HINs or SRNs under the ASX's CHESS system, one for Foreign IRs or Shares and one for IRs or Shares which are not Foreign, or (b) agrees to provide bi-monthly notices indicating the breakdown of its holding into Foreign and non-Foreign IRs or Shares.

The Trust Deed and Articles of Association also contain provisions permitting the Trustee (during the IR period) or Telstra (thereafter) to send notices to registered holders of IRs or Shares with a view to determining whether they are Foreign Holders or not, and requesting details of any foreign persons or associates of foreign persons having interests in the relevant IRs or Shares (and any other information relating to foreign ownership which may be requested). Such notices must be answered within 30 days.

Where the Trustee or Telstra determines, as a result of information obtained from the notifications and responses to notices referred to above, that an unacceptable foreign ownership situation exists in relation to Telstra, there is power under the Trust Deed or the Articles of Association (as appropriate) for the Trustee (during the IR period) or Telstra (thereafter) to require divestment of IRs or Shares respectively to remedy this situation. In exercising these divestment powers, the Trustee or Telstra is entitled to rely on Foreign codings in the relevant Register and upon the notifications and responses to notices referred to above. Telstra will notify the ASX, NZSE and NYSE of the level of Foreign codings as the level approaches the Aggregate Limit.

The divestment powers are broadly framed, and the Trustee, Telstra and their respective Directors are not liable to IR and Share Holders for the manner of their exercise. Both the Trustee and Telstra have published guidelines as to how they currently propose to exercise such powers, and these are outlined below. The Trustee is obliged to comply with such guidelines under the Trust Deed and may only change them at the relevant Minister's direction, but Telstra may change its guidelines at any time.

Where the Trustee or Telstra believes that the Individual Limit has been breached, it may require that any IR or Share Holder whose IRs or Shares it believes forms part of the contravening "stake" be divested within 30 days of the date a notice requiring divestment (Disposal Notice) is given.

Where the Trustee or Telstra believes the Aggregate Limit has been breached, the guidelines currently provide that Disposal Notices will be given to all holders whose Foreign IRs or Shares were registered in its name (or which became coded as "Foreign") on the day that, and on each day thereafter for as long as, the aggregate number of Foreign coded registrations on the relevant Register exceeded the limit.

Item 6: Exchange Controls and Other Limitations Affecting Security Holders

The recipient of a Disposal Notice will be required to divest the IRs or Shares that are the subject of the Notice before a date (Divestment Date) specified in the Notice. The Divestment Date will be the fifth business day of the month next following the month in which such IRs or Shares were registered in the recipient's name (unless that would be less than 30 days after the date of registration, in which case the Divestment Date will be the fifth business day of the next month). However, in relation to registrations in the 30 days after IRs were first quoted on the ASX, the Divestment Date will be the day six months after such first quotation.

Notwithstanding the foregoing, no divestment will be required on a Divestment Date if Foreign IRs or Shares as shown on the relevant Register on that date do not exceed the Aggregate Limit. Otherwise, if a Disposal Notice is not complied with, the Trust Deed and Articles of Association contain provisions empowering the Trustee or Telstra (as appropriate) to sell the relevant IRs or Shares on behalf of the holder on or after the relevant Divestment Date (and the holder will lose the ability to transfer the IRs or Shares itself after that date). In cases where the Trustee sells IRs, if the Trustee has been notified that a Foreign Holder is not a resident of Australia for Australian taxation purposes, or if no notification has been received but the Foreign Holder has a registered address outside Australia, the Trustee may retain from the proceeds of sale and remit to the Australian Taxation Office the tax due and payable by the IR Holder on any gain arising from the disposal of IRs.

Transfers Among Foreign Holders and Interim ADR or ADR Holders

Special arrangements apply to certain transfers from one Foreign Holder to another.

Disposal Notices will not be given in respect of (i) Foreign IRs or Shares acquired from the International Underwriters on closing of the International Offering or (ii) once the ASX systems have been established, Foreign IRs or Shares acquired under a particular form of ASX "special crossing" for transfers among Foreign Holders. IRs or Shares can only be transferred under such a special crossing if they are not, and are not liable to become, the subject of a Disposal Notice.

All IRs and Shares deposited in the Interim ADR and ADR facilities will be treated as Foreign. Only IRs and Shares which are not, and are not liable to become, subject to Disposal Notices may be deposited in the Interim ADR and ADR facilities. Transfers of Interim ADRs and ADRs cannot lead to a Disposal Notice by reason of breach of the Aggregate Limit.

Holders of Interim ADRs and ADRs are subject to the Individual Limit, and must notify the Interim Depositary or the Depositary, as applicable, if any of the Interim ADRs or ADRs they hold form part of a "stake" which breaches the Individual Limit. Where the Individual Limit is breached, the Interim Depositary or the Depositary may be required to divest the relevant IRs or Shares, and the corresponding Interim ADRs or ADRs may be cancelled. The Interim Deposit Agreement and Deposit Agreement contain provisions permitting the Interim Depositary and the Depositary to obtain, and supply to the Trustee and Telstra, information relevant in monitoring and enforcing the foreign ownership limits.

IRs or Shares registered on the New Zealand IR or Share Register cannot be the subject of a Disposal Notice (and any IRs or Shares which could be so subject cannot be placed on that Register). NZSE trading will be only in IRs or Shares registered on the New Zealand IR or Share Register.

Definitions

"Foreign person" is defined in the Telstra Act as: (i) a foreign citizen (defined in the Telstra Act as a non-Australian citizen) not ordinarily resident in Australia (a "foreign citizen"); (ii) a company where a foreign citizen or a foreign company (defined in the Telstra Act as an overseas incorporated company) holds a particular type of stake in the company of more than 15 per cent; (iii) a company where a group of two or more persons, each of whom is either a foreign citizen or a foreign company holds, in total, a particular type of stake in the company of more than 40 per cent; (iv) the trustee of a trust estate in which a foreign citizen or a foreign company holds a substantial interest (essentially a 15 per cent beneficial interest, including such foreign citizen's or foreign company's associates' interests); or (v) the trustee of a trust estate in which two or more persons, each of whom is either a foreign citizen or a foreign company, hold an aggregate substantial interest (essentially a 40 per cent beneficial interest including each such foreign citizen's or foreign company's associates' interests).

A "particular type of stake" in any company held by any person is defined as the aggregate of the "direct control interests" of that type in that company held by that person and that person's associates.

An "associate" of a person is defined to include: (i) a wide range of direct and indirect relationships such as relatives, partners, employees and employers of the person; (ii) if the person is an employee of an individual, other employees of the individual; (iii) if the person is a company, an officer of the company and, if the person is an officer of a company, the company and other officers of the company; (iv) the trustee of a discretionary trust where the person or an associate of the person is a beneficiary; (v) a company whose Directors are accustomed, or under an obligation, to act in accordance with the wishes, directions or instructions of the person; (vi) a company where the person is accustomed, or under an obligation, to act in accordance with the company's wishes, directions or instructions; (vii) a company in which the person has a particular type of stake of at least 15 per cent or, if the person is a company, a person who holds a particular type of stake of at least 15 per cent in it; and (viii) an associate of an associate of the person. For purposes of determining foreign ownership of any company, a person's associates also include any other person with whom the person has an arrangement enabling the person to jointly exercise voting power or certain types of power over, or over the appointment of, the board of directors of such company.

"Group", in relation to the foreign ownership limits, includes one person alone or a number of persons, even if they are not in any way associated with each other or acting together.

Item 6: Exchange Controls and Other Limitations Affecting Security Holders

A "direct control interest" of any person in any company is defined as the equivalent percentage of: (i) the total paid up share capital of the company in which the person holds an interest; (ii) the voting power in the company that the person is in a position to control; (iii) the total rights to distributions of capital or profits of the company to its shareholders on a winding up held by the person; (iv) the total rights to distributions of capital or profits of the company to its shareholders, other than on a winding up, held by the person; and (v) traced interests held via interposed entities.

"Interest in a share" is defined to include: (i) legal or equitable interests in a share; (ii) certain rights under a contract to purchase a share; (iii) options to acquire a share or an interest in a share; (iv) a right to have a share transferred to the person's order; and (v) an entitlement to acquire a share or an interest in a share or to exercise or control the exercise of a right attached to the share. However, certain interests in Shares are disregarded, including: (i) certain interests of lenders under or following enforcement of security arrangements; (ii) interests of a trustee or manager of, or a custodian for, a unit trust or certain Australian complying or exempt superannuation funds if such trustee, manager or custodian reasonably believes that foreign persons hold beneficial interests in less than 40 per cent of the capital and income in the trust or fund; (iii) interests held by an Australian registered life insurance company or a custodian for it, in respect of a statutory fund, if the company reasonably believes that less than 40 per cent of policyholder liabilities of the fund are owed to foreign persons; (iv) interests held by nominees, custodians or depositaries, or brokers acting on clients' instructions in the ordinary course of business, provided in each case the holder has no beneficial interest or discretionary voting authority in respect of the underlying Shares; (v) certain interests held by the International Underwriters and their related corporations; (vi) shareholder interests in companies other than Telstra which are not "foreign persons" under the Foreign Acquisitions and Takeovers Act 1975; (vii) interests held by persons who are not foreign persons and do not have any substantive foreign associates (that is, persons who directly or indirectly control them, with whom they act in concert or in accordance with whose wishes, instructions or directions they are obliged or accustomed to act); (viii) interests held by any person to the extent that, after such interests have been included in the "stake" of that person and any of its substantive foreign associates, such interests would also be included in the stake of a non-substantive associate of the person; and (ix) interests held by any person who is not a foreign person to the extent that, in determining the total of the stakes of a group of foreign persons, such interests would be counted more than once for that purpose. References to "interests" in Shares exclude disregarded interests.

Foreign Acquisitions and Takeovers Act

The Foreign Acquisitions and Takeovers Act of Australia (the Takeovers Act) applies to any acquisition of an interest in the Shares of an Australian company which results in any foreign person and its associates controlling 15 per cent or more, or all foreign persons and their associates in aggregate controlling 40 per cent or more, of Shares or voting power. Any proposed acquisition which would result in these thresholds being exceeded must be notified to, and are subject to review and approval of, the Treasurer in advance of the acquisition.

Foreign Ownership Status

Telstra estimates that at 30 June 1998, foreign owners of IRs and Interim ADSs held approximately 7.2 per cent of issued and outstanding Shares, including those Shares held by the Commonwealth.

Item 7: Taxation

Australian Taxation

The Australian Taxation Office has provided prior to the partial privatisation, an indicative opinion confirming the Australian income taxation consequences of investment in IRs, Interim ADSs, Shares and ADSs. This discussion reflects that indicative opinion.

The tax profile of each investor will determine the applicable Australian income taxation implications for that investor. For example, some investors, such as financial institutions, may hold their investments on income account rather than on capital account, in which case the comments below concerning capital gains implications will not be applicable. Certain Tax Non-Residents may, irrespective of whether the assets they dispose of are "taxable Australian assets", be liable to tax in respect of a profit on a dealing in the asset as ordinary income.

This discussion is based on the law in force at the date of this Report. However, both of the major Federal political parties have announced their intention to seek to amend the system of taxation dealing with corporations if they are elected at the Federal Election on 3 October 1998. The exact scope of these changes is not clear and, in particular, their impact on investors is not presently known.

Treatment of Instalment Receipts

Taxation of Distributions

The income taxation treatment of distributions to holders of IRs will mirror the income taxation treatment of distributions to holders of Shares.

While the distributions on IRs are strictly speaking trust distributions, they will retain the character of the dividends on the underlying Shares and will be treated in the same way for Australian income tax purposes as dividends on the underlying Shares.

An "imputation system" operates in Australia in respect of company income tax. In the absence of an exemption or concession, Australian resident companies are liable for Australian income tax on their taxable income at the corporate rate (currently 36 per cent). The payment of Australian income tax by Australian companies generates a "franking credit"

Item 7: Taxation

which, when the company pays a dividend to shareholders, flows through to resident shareholders.

The Commonwealth Treasurer has announced (but the Australian Parliament is yet to legislate) changes to the income tax law such that income tax paid on income derived when a company is wholly owned by the Commonwealth, such as Telstra was, will generate an "exempting credit" rather than a "franking credit". Payments of Australian income tax by Telstra attributable to periods after it ceased to be wholly owned by the Commonwealth will generate "franking credits" rather than "exempting credits". Arrangements have been put in place between the Commonwealth and Telstra in relation to the use of exempting credits. It is expected that for fiscal 1999, Telstra will be able to fully frank declared ordinary dividends. It is unlikely that, under current legislation, Telstra will be able to fully frank declared ordinary dividends out of fiscal 2000 earnings.

A rebate of tax equivalent to the franking credit (known as a franking rebate) is available only to Australian resident shareholders. Exempting credits do not carry tax credits for resident shareholders.

Fully franked dividends (franked with franking credits) paid to non-resident shareholders are not subject to the Australian non-resident dividend withholding tax (DWHT). Dividends which are not fully franked are generally subject to DWHT at the rate of 30 per cent (unless reduced by a double tax treaty). In the case of residents of the United States, provided that the IRs are not effectively connected with a permanent establishment or a fixed base of a Tax Non-Resident in Australia through which the Tax Non-Resident carries on business in Australia or provides independent personal services, the rate is reduced under the double tax treaty to 15 per cent.

Accordingly, dividends paid by Telstra to Tax Non-Residents, to the extent to which they are fully franked will not be subject to DWHT. The unfranked part of any dividends paid by Telstra to Tax Non-Residents will be subject to DWHT. DWHT is deducted by the payer in the source country and so the Tax Non-Resident will receive dividends net of DWHT.

Fully franked dividends paid to Tax Non-Residents and dividends which have been subject to DWHT are not subject to any further Australian income tax.

Under certain rules and proposed rules, there are circumstances where an investor may not be entitled to the benefit of franking credits. The application of these rules depends on the individual's own circumstances including the period for which the IRs or Shares are held and the extent to which the investor is "at risk" in relation to their investment.

Taxation of Capital Gains

Tax Non-Residents will be liable for Australian income tax under the capital gains provisions on the gains (in certain circumstances after an allowance for inflation in Australia) realised on the disposition of certain assets which have a necessary connection with Australia (for the purpose of this discussion, these assets are referred to as "taxable Australian assets"). Taxable Australian assets include a share (or interest in a share) in a public company where at any time in the preceding five years the non-resident's holding (together with the holding of associates) in the public company is 10 per cent or more, and an interest in an Australian resident trust estate.

An IR is an interest in an Australian resident trust estate, and so is a "taxable Australian asset" for the purposes of the Australian income tax on capital gains. Because the 10 per cent ownership threshold which applies to Shares in public companies does not apply to interests in trust estates, the real gain on sale of an IR by a Tax Non-Resident will be subject to the Australian income tax on capital gains. The Tax Non-Resident rate of income tax currently ranges from 29 per cent to 47 per cent for individuals, and is currently 36 per cent for corporations.

A double tax treaty between Australia and the country of residence of the investor may give relief from liability to pay the Australian income tax on ordinary income. Generally, the "business profits" articles of Australia's double tax treaties provide that a resident of a treaty partner is not subject to Australian income tax on "business profits" derived in Australia, unless derived at or through a permanent establishment in Australia. In the case of residents of the United States, Article 7(1) of the Convention between Australia and the United States for the Avoidance of Double Taxation (the U.S. Treaty) provides that the business profits of a U.S. enterprise are only taxable in the U.S. unless the enterprise carries on business in Australia through a permanent establishment situated in Australia. The term "permanent establishment" is defined in Article 5 of the U.S. Treaty. In the view of the Australian Taxation Office, capital gains realised on the disposal of IRs or Interim ADRs would not be "business profits". Prospective investors should seek their own independent taxation advice should they wish to rely on a double-tax treaty for relief from liability to pay Australian income tax upon the disposal of an IR.

The assessable capital gain will be the difference between the arms-length consideration in respect of disposal of the IR and the cost base (which is indexed for inflation where the asset is held for more than 12 months). The cost base of an IR will include the consideration on acquisition and incidental costs associated with acquisition and disposal.

Investors who incur a liability for Australian income tax will be required to file an income tax return in Australia.

Treatment of Interim American Depositary Receipts

Taxation of Distributions

The Australian income taxation treatment of distributions to holders of Interim ADRs will mirror the Australian income taxation treatment of distributions to holders of IRs.

Accordingly, distributions to holders of Interim ADRs will be treated in the same way as distributions to holders of IRs discussed above.

Taxation of Capital Gains

As discussed above, an IR is an interest in an Australian resident trust estate, and so is a "taxable Australian asset" for the purposes

Item 7: Taxation

of the Australian income tax on capital gains. The holder of an Interim ADR (evidencing Interim ADSs which represent IRs) will be subject to income tax in Australia as though the holder of the underlying IRs. As stated above, the 10 per cent ownership threshold which applies to Shares in public companies does not apply to interests in trust estates. Therefore, the disposal by Tax Non-Residents of an Interim ADR will be subject to the Australian income tax on capital gains.

In relation to the potential application of a double-tax treaty between Australia and the country of residence of the investor to give relief from liability to pay Australian income tax upon a disposal of an Interim ADR, refer to the comments above in relation to the disposal of IRs.

The assessable capital gain will be the difference between the arm's length consideration in respect of disposal of the Interim ADR and the cost base (which is indexed for inflation where the asset is held for more than 12 months). The cost base of an Interim ADR will include the consideration on acquisition and incidental costs associated with acquisition (such as fees paid to the Depositary) and disposal.

Payment of Final Instalment

The payment of the Final Instalment and transfer of legal title in the Share from the IR Trustee to the investor or to the Depository, (in respect of interim ADRs) does not constitute a disposal of an asset for the purposes of the Australian income tax on capital gains, and does not give rise to any Australian income tax liability. The failure to pay the Final Instalment and subsequent sale by the IR Trustee of the underlying Share may also have Australian income tax implications for investors. Investors should seek their own advice in relation to this issue.

Treatment of Shares

Taxation of Dividends

An imputation system operates in Australia in respect of company income tax. In the absence of an exemption or concession, Australian resident companies are liable for Australian income tax on their taxable income at the corporate rate (currently 36 per cent). The payment of Australian income tax by Australian companies generates a franking credit which, when the company pays a dividend to shareholders, flows through to resident shareholders.

The Commonwealth Treasurer has announced (but the Australian Parliament is yet to legislate) changes to the income tax law such that income tax paid on income derived when a company is wholly owned by the Commonwealth, such as Telstra was, will generate an "exempting credit" rather than a "franking credit". Payments of Australian income tax by Telstra attributable to periods after it ceased to be wholly owned by the Commonwealth will generate "franking credits" rather than "exempting credits". Arrangements have been put in place between the Commonwealth and Telstra in relation to the use of exempting credits. It is expected that for fiscal 1999 Telstra will be able to fully frank declared ordinary dividends. It is unlikely that, under current legislation, Telstra will be able to fully frank declared ordinary dividends out of fiscal 2000 earnings.

A rebate of tax equivalent to the franking credit (known as a franking rebate) is available only to Australian resident shareholders. Exempting credits do not carry tax credits for resident shareholders.

Fully franked dividends (franked with franking credits) paid to non-resident shareholders are not subject to DWHT. Dividends which are not fully franked are generally subject to DWHT at the rate of 30 per cent (unless reduced by a double tax treaty). In the case of residents of the United States, provided that the Shares are not effectively connected with a permanent establishment or a fixed base of a Tax Non-Resident in Australia through which the Tax Non-Resident carries on business in Australia or provides independent personal services, the rate is reduced under the double tax treaty to 15 per cent.

Accordingly, dividends paid by Telstra to Tax Non-Residents to the extent to which they are fully franked will not be subject to DWHT. The unfranked part of any dividends paid by Telstra to Tax Non-Residents will be subject to DWHT. DWHT is deducted by the payer in the source country and so the Non-Resident will receive dividends on the Shares net of DWHT.

Fully franked dividends paid to Tax Non-Residents and dividends which have been subject to DWHT are not subject to any further Australian income tax.

Under certain rules and proposed rules, there are circumstances where an investor may not be entitled to the benefit of franking credits. The application of these rules depends on the individual's own circumstances including the period for which the IRs or Shares are held and the extent to which the investor is "at risk" in relation to their investment.

Taxation of Capital Gains

Tax Non-Residents will be liable for income tax under the capital gains provisions on the gains (in certain circumstances after an allowance for inflation in Australia) realised on the disposal of certain assets which have a necessary connection with Australia (for the purpose of this discussion, these assets are referred to as "taxable Australian assets"). Taxable Australian assets include a share (or interest in a share) in a public company where at any time in the preceding five years the non-resident's holding (together with the holding of associates) in the public company is 10 per cent or more.

Tax Non-Residents who, together with their associates, hold less than 10 per cent of the Shares (or an interest in a Share) in Telstra will, on disposal of the Shares, not be subject to any Australian income tax on capital gains. Restrictions on the extent of foreign ownership in Telstra should ensure that Tax Non-Resident investors qualify for this exemption. Where Shares are held on income account, profits on the sale of such Shares are subject to Australian income tax if, under the terms of Australia's double tax treaties, the Tax Non-Residents have a permanent establishment in Australia.

Treatment of American Depositary Receipts

When investors have paid the Final Instalment and the Depositary has taken legal title in the Shares, Tax Non-Resident

Item 7: Taxation

holders of ADRs evidencing ADSs will be treated for Australian income tax purposes as the owners of the Shares represented by the ADSs.

Taxation of Distributions

The Depositary will receive dividends on the Shares represented by the ADSs net of DWHT (where payable). Holders of ADRs will not be subject to any further Australian income tax on distributions representing fully franked dividends or dividends which have been subject to DWHT.

Taxation of Capital Gains

A disposal of an ADR by a Tax Non-Resident investor will constitute a disposal by the investor of the Telstra Shares represented by the ADS evidenced by that ADR. Tax Non-Residents who, together with their associates, hold less than 10 per cent of the Shares or interests in Shares in Telstra (including through ADSs) will, on disposal of ADRs, not be subject to any Australian income tax on capital gains. Restrictions on the extent of foreign ownership in Telstra should ensure that Tax Non-Resident investors qualify for this exemption. Where ADRs are held on income account, profits on the sale of ADRs are subject to Australian income tax if, under the terms of Australia's double tax treaties, the Tax Non-Residents have a permanent establishment in Australia.

Australian Stamp Duty

Instalment Receipts

Transfers of IRs in Australia may attract Australian stamp duty applicable to marketable securities.

In general, stamp duty law in Australia distinguishes between transactions which are on the Australian Stock Exchange ("on market") and those which are not ("off market", which would include transfers on the NYSE, NZSE and SEAQ International). Stamp duty for on market trades of IRs is payable by the brokers involved at 0.15 per cent for the selling broker and 0.15 per cent for the buying broker. This stamp duty is paid to the State or Territory revenue office of the place where the broker takes the order. The brokers are reimbursed by their clients. Stamp duty for off market transfers of IRs is payable by the transferee at the rate of 0.3 per cent, and is payable in the Australian Capital Territory (ACT). Transfers of IRs upon issue or surrender of Interim ADRs and transfers of IRs on the NZSE and SEAQ International will be exempt, and other particular exceptions may apply.

Where a change in ownership of an IR is effected without stamp duty being paid as outlined above, the ACT's laws have a special provision which has the effect of making additional duty payable by transferees on trades or transfers of IRs (both on market and off market) at the rate of 0.3 per cent of the value of the underlying Shares.

Interim ADRs

As a general matter, no Australian stamp duty will be payable in respect of transactions involving the issue, transfer, transmission or surrender of Interim ADRs.

Shares

If a transfer of Shares takes place on market through a broker, stamp duty is payable through the brokers (0.15 per cent by the seller and 0.15 per cent by the purchaser) in the manner described above under the heading "Instalment Receipts". Any off market transfer of Shares (including a transfer to or from the Depositary's custodian on issue or surrender of ADRs) would, in most cases, require the payment by the transferee of ACT stamp duty at 0.3 per cent calculated on the higher of sale price or value of those Shares.

ADRs

Transfers of ADRs after payment of a Final Instalment may be liable to stamp duty in the ACT at 0.3 per cent calculated on the higher of the sale price and the value of the underlying Shares.

Item 8: Selected Financial Data

The following selected consolidated financial data for the five year period ended 30 June 1998 has been derived from Telstra's audited consolidated financial statements and accompanying notes thereto. The statistical data represents management's best estimates. PricewaterhouseCoopers, independent accountants, have reported on the Financial Statements for fiscal 1995 through to fiscal 1998 (the Financial Statements). The following information should be read in conjunction with the Financial Statements and the other information contained in this Report.

The Financial Statements were prepared in accordance with Australian GAAP, which differs in certain material respects from US GAAP. For a reconciliation of the material differences between Australian GAAP and US GAAP as they relate to Telstra, see Note 32 to the Financial Statements. The Company instituted certain accounting policy changes during fiscal 1997, some of which had a significant effect on the results of operations for fiscal 1998 and 1997.

	Year ended 30 June					
	1998	1998[1]	1997	1996	1995	1994
	(in millions, except per Share and per ADS amounts)					
	A$	US$	A$	A$	A$	A$
Profit and Loss Statement Data						
Amounts in accordance with Australian GAAP:						
Operating revenue[2]	**17,302**	**10,741**	15,983	15,239	14,081	13,363
Operating expense (excluding depreciation and amortisation, interest expense, and abnormals)[2]	**9,878**	**6,132**	9,301	9,113	8,398	7,550
Depreciation and amortisation	**2,322**	**1,441**	2,353	2,351	2,204	2,123
Operating profit before interest expense, abnormals and income tax expense	**5,102**	**3,168**	4,329	3,775	3,479	3,690
Operating profit before abnormals and income tax expense	**4,468**	**2,774**	3,805	3,242	2,973	2,942
Operating profit before income tax expense	**4,468**	**2,774**	2,073	3,447	2,405	2,528
Operating profit after income tax expense	**3,000**	**1,863**	1,609	2,302	1,756	1,705
Operating profit attributable to shareholders	**3,004**	**1,865**	1,617	2,305	1,753	1,699
Earnings per Share[3]	**0.23**	**0.14**	0.13	0.18	0.14	0.14
Earnings per ADS[3]	**4.67**	**2.90**	2.51	3.58	2.73	2.75
Dividends provided for or paid[4]	**1,802**	**1,119**	4,146	1,368	944	738
Dividends per Share[3]	**0.14**	**0.09**	0.32	0.11	0.07	0.06
Dividends per ADS[3]	**2.80**	**1.74**	6.44	2.13	1.47	1.19
Dividends per ADS[5]	**US$1.50**	**-**	US$5.10	US$1.45	US$0.91	US$1.16
Amounts in accordance with US GAAP[6]:	**A$**	**US$**	**A$**	**A$**	**A$**	**A$**
Operating revenue	**16,819**	**10,441**	15,436	14,716	13,613	-
Operating profit attributable to shareholders	**2,674**	**1,660**	1,136	2,714	2,463	-
Earnings per Share[3]	**0.21**	**0.13**	0.09	0.21	0.19	-
Earnings per Share fully diluted	**0.21**	**0.13**	0.09	0.21	0.19	-
Earnings per ADS[3]	**4.16**	**2.58**	1.77	4.22	3.83	-
Balance Sheet Data (at year end)						
Amounts in accordance with Australian GAAP:						
Total assets	**26,470**	**16,434**	25,858	24,362	24,083	21,139
Current borrowings	**2,935**	**1,822**	1,560	793	1,984	723
Non-current borrowings	**4,787**	**2,972**	6,421	4,350	3,872	5,010
Shareholders' equity	**11,079**	**6,879**	9,938	12,668	11,727	10,755
Amounts in accordance with US GAAP[6]:						
Total assets	**29,868**	**18,543**	28,965	27,459	26,246	-
Current borrowings	**2,935**	**1,822**	1,560	793	1,984	-
Non-current borrowings	**4,787**	**2,972**	6,421	4,350	3,872	-
Shareholders' equity	**14,676**	**9,112**	13,473	16,633	15,181	-

Item 8: Selected Financial Data

	Year ended 30 June				
	1998 A$m	1997 A$m	1996 A$m	1995 A$m	1994 A$m
Operating revenue includes:					
Sales revenue	**16,819**	15,436	14,716	13,613	12,788
Interest received/receivable	**49**	85	105	107	69
Proceeds from sale of assets/investments	**266**	202	199	153	349
Dividends received/receivable	**20**	38	33	38	23
Share of associated entities net profit after income tax expense	**14**	-	-	-	-
Miscellaneous revenue	**134**	222	186	170	134
Operating revenue	**17,302**	15,983	15,239	14,081	13,363
Operating expenses (excluding depreciation and amortisation, interest expense and abnormals) includes:					
Book value of assets/investments sold	**313**	218	190	179	393

(1) All amounts have been translated at the Noon Buying Rate on 30 June 1998 of A$1.00 = US$0.6208 unless otherwise stated.

(2) For a breakdown of operating revenue by product group and a breakdown of operating expenses by expense category, see Item 9.

(3) Calculated based on 12,866,600,200 Shares and, in the case of ADS calculations, based on a ratio of 20 Shares per ADS. Fully diluted earnings per Share in fiscal 1994 was A$0.13 after taking into account the lower number of equivalent Shares on issue in that year.

(4) During the year ended 30 June 1998, the Telstra Entity declared and paid dividends of A$1,422 million (1998 interim dividend plus 1997 final dividend paid during the year ended 30 June 1998), (1997 A$4,307 million of which A$3,000 million was paid as a special dividend to the Commonwealth on 30 June 1997.)

(5) Calculation as per (3) in US currency based on the exchange rates at each respective payment date.

(6) US GAAP amounts for fiscal 1994 are not available.

Statistical Data

	Year ended 30 June		
	1998	1997	1996
Billable Traffic Data (in millions)			
Local calls (number of calls)	**11,138**	10,844	10,650
National long distance minutes[1]	**11,319**	10,326	10,080
International outgoing minutes[2]	**705**	700	702
International incoming minutes	**767**	755	687
Mobile telephone minutes[3]	**2,720**	2,415	2,121
Network and Operations Data (at year end)			
Basic access lines in service (millions)[4]			
Residential	**6.88**	6.74	6.56
Business	**2.70**	2.61	2.61
Total	**9.58**	9.35	9.17
FaxStream® services access lines (thousands)[5]	**374.8**	300.0	177.4
ISDN access lines (basic access line equivalents) (thousands)[6]	**488.4**	360.3	269.5
Digitalisation of PSTN exchanges[7]			
Metropolitan	**95%**	86%	77%
Non-metropolitan	**94%**	81%	70%
All areas	**95%**	84%	74%
Mobile telephone customers (thousands)			
Analogue[8]	**1,323**	1,688	1,772
Digital	**1,745**	1,089	511
Total	**3,068**	2,777	2,283
Payphones[9]	**36,892**	37,362	37,049
Broadband Network—homes passed (thousands)[10]	**2,505**	2,088	1,120
Employee Data (at year end)[11]			
Full-time employees	**57,234**	66,109	76,522
Full-time equivalent employees	**66,670**	76,990	88,995
Basic access lines per full-time equivalent employee	**144**	121	103
Sales revenue per full-time equivalent employee[12]	**A$252,272**	A$200,494	A$165,358

(1) Includes national long distance minutes from Telstra's PSTN and independently operated payphones to Australian fixed and mobile telephones. Excludes minutes related to calls from non-PSTN networks, such as ISDN and virtual private networks, and FaxStream® services. Fiscal 1998 and fiscal 1997 also include 298 million minutes and 131 million minutes respectively related to calls made from Telstra's non-PSTN fixed networks (with the exception of calls from FaxStream® services) to Australian mobile telephones.

(2) International outgoing minutes for international settlement purposes also include minutes from mobile telephone services, ISDN and Telstra operated public payphones. For fiscal 1998, 1997 and 1996, total international outgoing minutes for settlement purposes were 833 million, 829 million and 806 million, respectively.

(3) Includes all calls made from mobile telephones including long distance, international and data calls.

(4) Excludes advanced access services, such as ISDN, and FaxStream® services.

(5) Facsimile access product.

(6) Expressed in equivalent number of clear voice channels.

(7) Based on the total primary switch capacity of the PSTN exchanges.

(8) Analogue figures exclude customers who redirect their Telstra analogue mobile service to Telstra's digital service.

(9) Includes public payphones which are owned and operated by Telstra.

Statistical Data

(10) *Homes passed excludes businesses. Telstra has interests in joint ventures with News Corporation to market and deliver pay television services. These joint ventures began service in October 1995 and had approximately 320,000 and 205,000 pay television customers as at 30 June 1998 and 1997 respectively.*

(11) *Full-time employees includes full-time staff, fixed term contracted staff and expatriate staff in overseas controlled entities. Full-time equivalent employees includes full-time employees and a full-time equivalent measure of part-time and casual staff, overtime worked, and full and part-time contracted staff and a measure for overseas local hires. From fiscal 1997 a change in reporting overseas local hires added 405 full time equivalent employees.*

(12) *For a breakdown of operating revenue by product group and a breakdown of operating expenses by expense category, see Item 9.*

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The markets in which the Company operates have undergone significant liberalisation in recent years as Australia has moved towards open competition. This liberalisation has affected the Company's results of operations for fiscal 1998, 1997 and 1996, particularly with respect to national long distance calls, international telephone services, mobile telecommunications and wholesale services. While this changing competitive environment has presented and will continue to present significant challenges for Telstra, the Company has instituted strategies to address this evolving regulatory and competitive environment.

The new environment of open competition, which began on 1 July 1997, is expected to be the principal external factor affecting Telstra's operating revenue and results of operations for the next several years. Telstra's operating revenues in future years will be affected by the Company's anticipated loss of significant market share to competitors and by falling prices, particularly in the Company's traditional products and services. However, Telstra expects the overall market to grow as competition increases. Telstra's operating revenue will also be affected by the extent to which the Company is able to develop innovative packages of products and services and pricing plans. Telstra believes that today's open market environment provides new opportunities for the Company to respond to competitive pressures. In particular, Telstra now has greater freedom to develop product packages and pricing plans tailored to meet the needs of particular customer segments, subject to certain regulatory limitations. The Company believes that its success will depend, in part, on the success of its strategy of promoting the development and adoption of higher value-added products and services while maximising returns in its traditional markets.

Telstra has in recent years committed substantial capital and other resources to upgrade and rationalise its network infrastructure and improve many of its systems in order to support and maintain its range of products and services, allow the timely introduction of new and innovative products and services and reduce its cost structure. The Company is in the final stages of the Networks and Systems Modernisation Programme and has recently announced plans to build another digital mobile network using the 800MHz spectrum.

These initiatives are also producing significant operating efficiencies by controlling maintenance and other costs and simplifying processes, thereby also allowing reductions in the Company's workforce. As a result, the Company's full-time staff is expected to decrease by approximately 27,500 employees between 1 July 1996 and 30 June 2001. During fiscal 1998, the Company reduced full-time staff numbers by approximately 8,900. This brings the total reduction of full-time staff numbers in the last two fiscal years to approximately 20,800 (of which approximately 20 per cent resulted from the outsourcing of activities by the sale of certain businesses and the contracting out of some operations). These reductions were offset in part by the addition of 1,500 full-time staff relating to the consolidation of Pacific Access as of 20 June 1997.

The Company's future results of operations may be affected by a number of factors. There remains uncertainties as to regulatory outcomes and competition continues to strengthen.

In the regulatory area, the following may impact future results:

- the "Consumer Price Index less x" pricing regime review;
- the extent to which the AMPS mobile network is closed by 31 December 1999;
- the ACCC investigations into the declarations of access for telephony, data and transmission;
- the ACCC review into interconnect pricing; and
- the ACA study into the final form of Local Number Portability.

Individually, the decisions reached on these matters could impact the future results of operations and, combined, this impact could be significant.

Furthermore, there is additional pressure on future operations arising from the current economic decline in Asia and the devaluation of the Australian dollar. In order to offset the possible impacts of the abovementioned events, Telstra intends to:

- continue to improve customer service;
- continue to aim for best practice operational and financial performance;
- continue to transform the Company into a truly commercially driven entity; and
- continue to invest in infrastructure and new products and services as Australia moves towards the multimedia age.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Effect of Changes in Accounting Policies

In order to further align its accounting policies with common practice in the telecommunications industry, Telstra changed certain accounting policies during fiscal 1997 to capitalise software developed for internal use and to capitalise interest and indirect overheads incurred during the self-construction of assets. Prior to these changes, these costs were expensed as incurred rather than capitalised. The reconciliation of amounts determined under Australian GAAP to amounts determined under US GAAP includes adjustments on the basis that these policies had been in effect historically under US GAAP. See Note 32 to the Financial Statements.

In fiscal 1998, Telstra adopted the equity method of accounting for investments in associated entities in its consolidated accounts as detailed in Note 1.9 to the Financial Statements but the impact for both Australian and US GAAP purposes has been immaterial. See Note 32 to the Financial Statements.

Results of Operations

Telstra accounts for its business as a single segment because substantially all of its assets, revenues and profits are related to the provision of telecommunications services. The following discussion, therefore, analyses revenue for each of Telstra's significant products and services, but does not provide separate segment information for profits or assets. Most of Telstra's operating revenue for fiscal 1998 was derived from basic access, local calls, national long distance calls, international telephone services, mobile telecommunications services, data and text services and directory services.

Telstra's telephony products such as long distance and international calls have historically been more profitable than non-telephony products such as data. However, telephony products continue to decline as a proportion of profit as competition erodes market share and margins. This trend is expected to continue.

The requirement for Telstra to provide universal service to all Australians has impacted adversely on the Company's profitability. Telstra's obligation to make available, for rental on request, a customer's first telephone, has also impacted adversely on profitability.

In addition, the margins on the Company's mobile telecommunications services have contracted during the last three fiscal years, despite strong mobiles revenue growth, principally due to the cost of migrating customers to the Company's digital mobile telecommunications service. Also, mobiles depreciation expense has grown due to the investment in the Company's digital network.

With an increasingly competitive telecommunications market, the Company expects to experience continued pressure on margins in certain of its principal product categories.

Operating Revenue

Operating revenue grew at an average rate of 6.6 per cent per year from fiscal 1996 to fiscal 1998, principally reflecting strong growth in mobile telecommunications services (12.4 per cent per year on average), data and text services (15.4 per cent per year on average), and other sales and services (26 per cent per year on average), particularly toll-free services, Internet related products and value added services such as international mobile roaming and conferencing calling. Table 1 shows Telstra's operating revenue by major product and service category for the last three fiscal years and expressed as a percentage of total operating revenue.

Table 1 - Operating Revenue by Major Product and Service Category

	Year Ended 30 June					
	1998		**1997**		**1996**	
	A$m	**%**	A$m	%	A$m	%
Basic access	**1,770**	**10**	1,740	11	1,727	11
Local calls	**2,664**	**15**	2,664	17	2,669	18
National long distance calls	**2,594**	**15**	2,455	15	2,505	16
International telephone services	**1,380**	**8**	1,342	8	1,338	9
Mobile telecommunications services	**2,154**	**13**	1,981	12	1,705	11
Data and text services	**2,097**	**12**	1,883	12	1,574	10
Directory services	**1,013**	**6**	723	5	709	5
Customer premises equipment	**538**	**3**	576	4	611	4
Intercarrier services	**582**	**3**	558	3	485	3
Public payphones	**225**	**1**	248	2	259	2
Other sales and services	**1,802**	**11**	1,266	8	1,134	8
Sales revenue	**16,819**	**97**	15,436	97	14,716	97
Other revenue[(1)]	**483**	**3**	547	3	523	3
Operating revenue	**17,302**	**100**	15,983	100	15,239	100

(1) Other revenue includes interest received/receivable, proceeds from sale of assets/investments, dividends received/ receivable and miscellaneous revenue.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

The categorisation of operating revenue is based on the classifications reported by the Company to the regulatory authorities but excludes internal charges to the call products for access to the network required for regulatory accounting purposes. These revenue classifications require the Company to treat revenue from the provision of products and services to wholesale customers differently depending on the nature of the product or service supplied. Revenue from interconnect and AMPS resale is categorised as intercarrier services revenue, whereas revenue from other resale is categorised according to the product or service to which it pertains. The ACCC is currently drafting a new set of revenue reporting guidelines. As a result, in future years there may be significant reclassifications of revenue from one category to another.

Revenues for both domestic and international wholesale activities were A$1.9 billion in fiscal 1998 compared with A$2.0 billion in 1997. Comparative figures are not available for fiscal 1996.

Telstra is actively promoting alternative value-added products and services to its customers. Acceptance of these new products and services is causing migration in revenue from one category to another. For example, as customers move from basic access to other forms of access such as ISDN or the Company's FaxStream® facsimile access product, revenue will shift from basic access to data and text services.

In addition, since revenue from calls arising from ISDN and FaxStream® services is categorised under data and text services, the revenues from local calls, national long distance calls and international telephone services are also affected.

Revenue from all calls made from Telstra's fixed networks to Australian mobile telephones (fixed-to-mobile calls) is categorised as national long distance calls revenue for regulatory reporting purposes. Revenue from fixed-to-mobile national long distance calls is being positively affected by the increased penetration of mobile telephones in Australia.

In addition to the impacts referred to above, there is a migration of traffic to mobile telephony as a result of strong growth in the mobile customer base. As a result, revenues accounted for as local calls, national long distance calls and international telephone services achieved comparatively lower rates of growth.

Telstra expects to continue to lose market share in certain retail markets as a result of increasing competition. The Company, however, has the opportunity to increase wholesale revenue by providing services to CSPs and other Carriers.

The rates Telstra charges its customers for basic access, local, national long distance and international calls, domestic and international leased lines, fixed-to-mobile calls and mobile telecommunications services are subject to price controls. These controls impose caps based on annual increases in the CPI for the previous year less a certain percentage. In circumstances where the annual increase in the CPI is less than such percentage, Telstra is required to reduce its prices. As the Company reduces its average local call prices in areas where there is competition or likely to be competition, it will be required by regulation to reduce, in the following year, local prices in other areas of Australia. In addition, local call prices in all areas of Australia must not exceed the current A$0.25 per call price cap, except for calls from pay phones which are capped at A$0.40 per call.

In recent years, Telstra has been reducing its prices for a number of products and services at rates that exceed the rate required under the price caps. The current price caps, which apply to a large basket of services, are due to expire on 31 December 1998.

Table 2 - Basic Access Data

	Year Ended 30 June			Year Ended 30 June	
	1998	1997	1996	**1998/1997**	1997/1996
		(in millions)		(% change)	
Basic access revenue[1]	**A$1,770**	A$1,740	A$1,727	**1.7**	0.8
Basic access lines in service (at year end)[2]					
Residential	**6.88**	6.74	6.56	**2.0**	2.7
Business	**2.70**	2.61	2.61	**3.4**	0.0
Total	**9.58**	9.35	9.17	**2.5**	2.0

Note: statistical data represents management's best estimates.

(1) Approximately 5 per cent and 7 per cent of basic access revenue in fiscal 1998 and fiscal 1997, respectively was derived from wholesale activities. Comparative figures are not available for fiscal 1996.

(2) Excludes basic access lines for Telstra's internal use.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Basic Access

Basic access revenue includes installation and connection charges and monthly rental fees associated with providing basic connections between customer premises and Telstra's PSTN. It excludes charges levied internally to the call products for access to the network. Basic access revenue is generally driven by housing growth, the general state of the economy and the demand for access lines. Basic access revenue is also expected to be affected by loss of market share due to the introduction of open competition, and customer migration to other Telstra access services. Table 2 shows certain information about Telstra's basic access service.

In fiscal 1998, revenue from basic access grew generally in line with the rate of growth of basic access lines in service. In fiscal 1997 and 1996 the rate of revenue growth overall was less than the rate of growth of basic access lines in service principally due to lower prices in the business market reflecting competitive pressures. The growth in basic access lines in service was tempered during the period by migration to other Telstra access services, particularly ISDN and FaxStream® services.

Local Calls

Local calls revenue reflects the charges associated with local calling and certain billable value-added services. Local calls are charged predominantly on an untimed basis. Local calls revenue is driven by general economic conditions and growth in basic access lines in service and has been positively affected by the Company's efforts to increase call completion by offering customers Voicemail, Call Waiting and Call Forwarding. Revenue from local calls has, as yet, not been materially affected by the introduction of local loop competition, the introduction of local number portability and new local call pricing regulation. Nevertheless, these factors and customer migration to other Telstra access services, are expected to have an adverse effect on local call revenue in future years.

Table 3 shows certain information about Telstra's local calls.

Revenue from local calls remained flat in fiscal 1998 and fiscal 1997 principally due to increased local calls arising from the growth in basic access lines and higher penetration of value added services and the Internet, offset by increased mobile telephone substitution and increased use of discount pricing plans. In fiscal 1996 local calls revenue grew due to the introduction of a programme designed to stimulate volume by offering certain value-added services, such as Call Waiting and Call Forwarding, on a complimentary basis and others such as Call Conferencing and Voicemail on a billed basis.

Table 3 - Local Call Data

	Year Ended 30 June			Year Ended 30 June	
	1998	1997	1996	**1998/1997**	1997/1996
	(in millions)			(% change)	
Local calls revenue[1]	**A$2,664**	A$2,664	A$2,669	**-**	(0.2)
Number of local calls	**11,138**	10,844	10,650	**2.7**	1.8

Note: statistical data represents management's best estimates.

(1) Approximately 6 per cent and 10 per cent of local calls revenue in fiscal 1998 and 1997, respectively was derived from wholesale activities. Comparative figures are not available for fiscal 1996.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 4 - National Long Distance Call Data

	Year Ended 30 June			Year Ended 30 June	
	1998	1997	1996	**1998/1997**	1997/1996
		(in millions)		(% change)	
National long distance calls revenue[1]	**A$2,594**	A$2,455	A$2,505	**5.7**	(2.0)
National long distance minutes	**11,319**	10,326	10,080	**9.6**	2.4

Note: statistical data represents management's best estimates.

(1) *Approximately 5 per cent and 8 per cent of national long distance calls revenue in fiscal 1998 and 1997 respectively, was derived from wholesale activities. Comparative figures are not available for 1996.*

National Long Distance Calls

National long distance calls revenue comprises revenue from fixed-to-fixed national long distance calls, including calls made from independently operated payphones, and fixed-to-mobile calls. National long distance calls are charged to the originating party based on duration, time of day, day of week, destination of the call and whether the call is fixed-to-fixed or fixed-to-mobile. Telstra offers a variety of short-term promotions or specials to stimulate volumes and positively influence customer price-value perceptions. A majority of national long distance revenue is generated by the Company's residential and small business customers. Revenue is largely driven by general economic conditions and customer price-value perceptions and is expected to continue to be affected by competitive activity and market share position.

However, decreasing prices have led to increases in overall market call volume. Increased competitive pressures are expected as regulatory restrictions and technical barriers are reduced, including the expansion of the availability of preselection. Fixed-to-mobile minutes are expected to continue to grow as mobile telephone penetration increases and from increased use of call diversion and call completion initiatives.

Table 4 shows certain information about Telstra's national long distance calls.

National long distance calls revenue increased in fiscal 1998 principally reflecting the effect of increased fixed-to-mobile call revenue with increased penetration of mobile telephony in Australia, together with deployment of call diversion and call completion initiatives. Targeted marketing initiatives have stimulated fixed-to-fixed calls.

National long distance calls revenue decreased in fiscal 1997 and 1996, principally reflecting the continuing effect of preselection losses, migration to other products and services and competitive pricing pressures in fixed-to-fixed calls.

As in fiscal 1997 and fiscal 1996, fixed-to-fixed call revenue continued to decline in fiscal 1998 but at a much reduced rate. This decline was more than offset by the continued growth in fixed-to-mobile call revenue which, as in fiscal 1997 and 1996, again grew, but also at a reduced rate.

During fiscal 1998, Telstra's marketing initiatives drove considerable growth in fixed-to-fixed call minutes. These initiatives included the "A$3 Offer" providing capped fixed-to-fixed calls during certain periods; the introduction of an afternoon time band and bringing forward the commencement of the economy rate and A$3 Offer to 7 pm in September 1997 and a further general tariff reduction in April 1998. During fiscal 1996, largely in response to competitive pressures from Resellers, Telstra reduced fixed-to-fixed tariffs twice and introduced a new discount plan to the residential market which, subject to certain conditions being met, delivered discounts of up to 15 per cent principally on national long distance fixed-to-fixed calls. As in fiscal 1997 and fiscal 1996, fixed-to-mobile minutes continued to grow strongly in fiscal 1998.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 5 - International Telephone Services Data

	Year Ended 30 June			Year Ended 30 June	
	1998	1997	1996	**1998/1997**	1997/1996
		(in millions)		(% change)	
International telephone services revenue[1]	**A$1,380**	A$1,342	A$1,338	**2.8**	0.3
International outgoing minutes[2]	**705**	700	702	**0.7**	(0.3)
International incoming minutes	**767**	755	687	**1.6**	9.9

Note: statistical data represents management's best estimates.

(1) *Approximately 45 per cent and 38 per cent of international telephone services revenue in fiscal 1998 and 1997, respectively was derived from wholesale activities. Comparative figures are not available for fiscal 1996.*

(2) *International outgoing minutes for international settlement purposes also include minutes from mobile telephone services, ISDN and Telstra operated public payphones. For fiscal 1998, 1997 and 1996, total international outgoing minutes for settlement purposes were 833 million, 829 million and 806 million, respectively.*

International Telephone Services

International telephone services revenue includes revenue generated from international outgoing calls, fees charged by Telstra to overseas telecommunications companies for the carriage and termination of international incoming calls, operator assisted international calls and the transit of international traffic bound for another country. Revenue from international outgoing calls is largely driven by general economic conditions and customer price-value perceptions, and is expected to continue to be affected by competitor activity, through market share position and by decreasing prices. Rates for such calls depend upon the destination, duration, time of day and day of week of the call.

Revenue from fees charged by Telstra to overseas telecommunications companies is largely driven by the volume of international incoming calls, Telstra's share of international outgoing calls, and the charges negotiated for termination and transit of international traffic. Telstra pays for the use of networks of other Carriers for international outgoing calls pursuant to bilateral settlement arrangements which Telstra recognises as an operating expense. Telstra has historically been a net payer under these arrangements and has benefited from the lowering of certain settlement rates in recent years. Telstra records settlement payments to overseas telecommunication companies to complete or route international outgoing traffic as direct cost of sales.

Table 5 shows certain information about Telstra's international telephone services.

Revenue from international telephone services increased marginally in fiscal 1998 and fiscal 1997, following a decline in fiscal 1996. This reflected increased transit traffic revenues across all periods offset by continuing decreases in international outgoing and incoming revenues. Although international outgoing minutes increased slightly during the three year period, revenue was affected by price reductions and discounts especially on calls to high volume countries as competitive pricing pressures continued. Revenue from international incoming calls continued to decline despite increased volumes during the period, reflecting reductions in international settlement rates and contractions in outgoing market share. Revenue from international switched transit traffic increased significantly during the period reflecting an increased level of activity by the Company in switching international traffic through to other destinations.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 6 - Mobile Telecommunications Services Revenue Data

	Year Ended 30 June			Year Ended 30 June	
	1998	1997	1996	**1998/1997**	1997/1996
	(in millions, except customers and minutes in thousands)			(% change)	
Mobile telecommunications services revenue[1]	**A$2,154**	A$1,981	A$1,705	**8.7**	16.2
Analogue mobile telephone customers	**1,323**	1,688	1,772	**(21.6)**	(4.7)
Digital mobile telephone customers	**1,745**	1,089	511	**60.2**	113.1
Total mobile telephone customers	**3,068**	2,777	2,283	**10.5**	21.6
Mobile telephone minutes[2]	**2,720**	2,415	2,121	**12.6**	13.9

Note: statistical data represents management's best estimates.

(1) *Excludes the provision of analogue services to Optus, which is categorised as intercarrier services revenue.*

(2) *Outbound minutes based on calling party pays billing.*

Mobile Telecommunications Services

Mobile telecommunications services revenue includes revenue from initial connection charges, monthly access fees and usage charges, sales of mobile handsets and charges for a number of value-added and paging services. Mobile calls are charged to the calling party, on a timed basis in 30-second intervals. Mobile telecommunications services revenue is driven principally by overall market growth, Telstra's share of market growth, price and minutes of use.

While per minute charges remained relatively stable during the three year period, prices are expected to trend downward in future years particularly as more competitors enter this market.

Although the mobile telecommunications market has grown substantially over the past few years, the rate of growth slowed during fiscal 1998. This trend is expected to continue as the percentage of the population with mobile telephone services increases and penetration extends to more low-volume users.

Table 6 shows certain information about Telstra's mobile telecommunications services.

Revenue from mobile telecommunications services increased during the three year period, principally due to the strong growth in the number of mobile telephone customers. The number of digital customers increased during the period reflecting Telstra's efforts to migrate its analogue customers to its digital service and overall growth in the market. During the three year period average revenue per customer declined reflecting penetration into the low-volume user market.

Telstra's GSM service experienced a disconnection or churn rate of approximately 22 per cent during the three year period. Churn rates are influenced by numerous events, including the level of credit and short-term disconnections. Subsequent to fiscal 1998, Telstra announced its intention to introduce a new mobile network with national coverage based on digital technology to replace the analogue network and using much of the existing infrastructure. This initiative will ensure that Telstra can continue to provide the necessary capacity for projected growth in the mobile market in the future in the most cost effective manner, whilst enabling coverage equivalent to the analogue network to be continued and increasing the likelihood of Telstra retaining its analogue customers as they migrate to an alternative digital service. The new network will utilise the 800MHz spectrum being vacated by the analogue service which Telstra "re-acquired" as part of spectrum auctions held by the Government in fiscal 1998.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 7 - Data and Text Services Data

	Year Ended 30 June			Year Ended 30 June	
	1998	1997	1996	**1998/1997**	1997/1996
	(in millions, except access lines in thousands)			(% change)	
Data and text services revenue[1]	**A$2,097**	A$1,883	A$1,574	**11.4**	19.6
FaxStream® services access lines	**374.8**	300.0	177.4	**24.9**	69.1
ISDN access lines (basic access line equivalents)	**488.4**	360.3	269.5	**35.6**	33.7

Note: statistical data represents management's best estimates.

(1) *Approximately 11 per cent and 14 per cent of data and text services revenue in fiscal 1998 and 1997, respectively, was derived from wholesale activities. Comparative figures are not available for fiscal 1996.*

Data and Text Services

Data and text services revenue consists principally of revenue from data transmission services, dedicated leased lines, ISDN access and call revenue, and facsimile products such as FaxStream® services. Data and text services revenue is driven by the growth in demand for bandwidth to support business networking and the increased penetration of the Internet. However, revenue growth has been partly offset by competition and falling prices. Data and text services revenue was also stimulated by migration from basic access and associated calling products to other access services, in particular ISDN and FaxStream® services.

Table 7 shows certain information about Telstra's data and text services.

Data and text services revenue increased during the period, principally due to increased revenue from ISDN, frame relay, and facsimile products. Growth in data and text services is due in part to the increased use of Internet, Intranet and local area network applications, such as e-mail, and increased customer demand for flexible, high capacity data transmission. Growth in ISDN and facsimile products reflects increased migration from basic access services. As volumes have increased, however, competitive pressures and the greater use of new technologies, such as frame relay, have resulted in price declines, particularly in dedicated leased lines.

Directory Services

Directory services revenue consists of advertising fees for special listings and revenue from value-added directory products and services, such as electronic and on-line services. Directory services revenue is received both directly by the Telstra Entity and through Pacific Access. Prior to 20 June 1997, Pacific Access was a 50 per cent owned associate, thus it was not consolidated. Effective 1 July 1997, the Company integrated the management of all directory services into Pacific Access in order to achieve cost reductions and improve operational efficiencies. During fiscal 1998, the Company increased its ownership of Pacific Access to 75 per cent. In the 1998 fiscal year, Pacific Access' performance has been consolidated into the Company's results. In prior years, Telstra's accounts for the Directories business, reflected royalties derived from Pacific Access, results of operations from the National Directory Services division and, in other revenue, dividends derived from the Company's former 50 per cent shareholding in Pacific Access. With consolidation, the total Directories business performance is incorporated into the accounts, which is reflected in the significant increase in revenue from fiscal 1997 to fiscal 1998.

Table 8 (on page 50) shows certain information about Telstra's directory services revenue.

In fiscal 1998, directory services revenue grew by 40.1 per cent including the effect of the consolidation of Pacific Access for the first time and 4.1 per cent excluding this effect. The real revenue growth was achieved in an environment of increased competition from alternatives in print, voice and electronic media, local newspapers, magazines, radio, television and direct marketing. Revenue from directory services may be adversely affected by a downturn in the level of business activity, particularly in the small business sector. New advertising initiatives such as Internet sites, Internet banners and electronic commerce were launched during the year in order to provide future growth in view of changing technologies. The White Pages™ product was re-launched during the year, positioning it as a 'contact' medium and expanding its relevance in the marketplace.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 8 - Directory Services Data

	Year Ended 30 June			Year Ended 30 June	
	1998	1997	1996	**1998/1997**	1997/1996
		(in millions)		(% change)	
Directory services revenue	**A$1,013**	A$723	A$709	**40.1**	2.0

Customer Premises Equipment

The largest component of customer premises equipment revenue is the rental of telephones in accordance with the Company's Universal Service Obligation. Customer premises equipment revenue also includes rental and sales of small business systems, maintenance fees for PBX systems, and rental and sales of telephones and other miscellaneous telecommunications equipment. Table 9 shows certain information about Telstra's customer premises equipment revenue.

Customer premises equipment revenue decreased during the three year period principally due to lower volumes and pricing pressure from increased competition. Partially offsetting these declines, however, were increased sales of advanced equipment products reflecting growth in ISDN and other advanced access services.

In fiscal 1998, around one third of customer premises equipment business revenue was derived from the business that was sold to PlesTel subsequent to the end of fiscal 1998.

Table 9 - Customer Premises Equipment Data

	Year Ended 30 June			Year Ended 30 June	
	1998	1997	1996	**1998/1997**	1997/1996
		(in millions)		(% change)	
Customer premises equipment revenue	**A$538**	A$576	A$611	**(6.6)**	(5.7)

Intercarrier Services

Intercarrier services revenue consists of revenue from the provision of telecommunications services to Carriers or CSPs. Revenue from resale activity is currently categorised according to the product or service to which it pertains. Prior to 1 July 1997, intercarrier services revenue consisted primarily of revenue from originating and terminating access services, the provision of leased lines and wholesale analogue mobile telephone services. As a result of the changes to the regulatory environment that occurred on 1 July 1997, additional Carrier licences have been granted and more licences are expected to be granted in the future, including to companies that had previously been CSPs. As the ACCC is developing a new set of revenue reporting guidelines, in future years, there may be significant reclassifications of revenue from one category to another.

Table 10 shows certain information about Telstra's intercarrier services revenue.

Intercarrier services revenue increased during the three year period principally due to increased termination of traffic for both Optus and Vodafone due to growth in the mobile telecommunications market and growth in other Carriers' share of the national long distance market.

In fiscal 1997, Optus ceased actively promoting analogue mobile telephone services and in fiscal 1998 the movement of its customers from analogue resale onto Optus' own GSM network accelerated, resulting in a decrease in revenue from the wholesale provision of analogue services.

Table 10 - Intercarrier Services Data

	Year Ended 30 June			Year Ended 30 June	
	1998	1997	1996	**1998/1997**	1997/1996
		(in millions)		(% change)	
Intercarrier services revenue	**A$582**	A$558	A$485	**4.3**	15.1

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Public Payphones

Public payphones revenue principally consists of charges for coin-paid calls made from Telstra operated payphones and revenue from use of pre-paid phone cards. It also includes revenue from payphones sold or leased to independent operators. In compliance with Telstra's Universal Service Obligation, approximately half of Telstra's payphones are located in non-metropolitan areas where usage levels are lower than in urban areas. During fiscal 1998, revenue from public payphones decreased slightly, reflecting a mature market and increased substitution by mobile telephony and calling card products. Telstra expects that increased competition from new market entrants and increased mobile telephone penetration will place increased pressure on public payphones revenue in the future. The Company is endeavouring to stimulate and diversify this market by the use of new smartcard technology, so that it may be used as an alternative payment mechanism for payphones and for other vending applications.

Other Sales and Services

The principal components of revenue recorded by Telstra in other sales and services are revenue from intelligent network services (including local calling rate services Priority® One3 and Priority® 1300 and toll free services), revenue from various controlled entities, Internet access products and services, domestic operator-assisted calls, ship-to-shore services and recorded message and other enhanced call products. The increase in revenue of 26 per cent per annum over the three year period was driven principally by increased revenue from Internet access products and services, intelligent network services and revenues from controlled entities such as Telstra UK and Telstra New Zealand whose revenues were A$177 million and A$44 million respectively.

Other Revenue

Table 11 shows certain information about Telstra's other revenue.

Table 11 - Other Revenue by Category

	Year Ended 30 June		
	1998 A$m	1997 A$m	1996 A$m
Interest received/receivable	49	85	105
Proceeds from sale of assets/ investments/patents, trademarks and licences	266	202	199
Dividends received/receivable	20	38	33
Share of associated entities net profit after income tax expense	14	-	-
Miscellaneous revenue	134	222	186
Total other revenue	483	547	523

Operating Expenses (Before Interest Expense and Abnormals)

Telstra categorises its operating expenses (before interest expense and abnormals) into labour expense, direct cost of sales, depreciation and amortisation and other operating expenses. Table 12 (on page 52) shows a breakdown of Telstra's operating expenses (before interest expense and abnormals) by type and expressed as a percentage of operating revenue.

Overall, Telstra's operating expenses (before interest expense and abnormals) increased by an average rate of 3.2 per cent over the three year period, but fell as a percentage of revenue. Labour expense declined and decreased as a percentage of revenue reflecting reductions in staff numbers during the same period. Direct cost of sales increased principally due to higher payments to other domestic and international Carriers for terminating calls and the growth in the mobile telecommunications market and migration of customers from the analogue network to digital networks which resulted in increased mobile handset purchases and subsidies, dealer bonuses and commissions. Depreciation and amortisation was relatively flat during the period reflecting the effect of recent high levels of capital investments, offset by the extension of service lives of certain capital assets resulting from the Company's annual review of asset lives.

Other operating expenses which are influenced by a number of factors including the size of the workforce, the extent of outsourcing activities, performance of strategic investments, business growth, competitor activity, market trends and economic conditions, remained relatively flat as a percentage of revenues over the period.

In fiscal 1998, labour expense and other operating expenses have been favourably impacted and depreciation and amortisation has been adversely impacted by changes to accounting policies implemented in fiscal 1997, the effects of which were recognised as abnormals in that year.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 12 - Operating Expense Data

	Year Ended 30 June					
	1998		**1997**		**1996**	
	A$m	**%**	A$m	%	A$m	%
Labour expense	**3,665**	**21.2**	3,973	24.9	3,997	26.2
Direct cost of sales	**2,582**	**14.9**	2,033	12.7	1,748	11.5
Depreciation and amortisation	**2,322**	**13.4**	2,353	14.7	2,351	15.4
Other operating expenses	**3,631**	**21.0**	3,295	20.6	3,368	22.1
Operating expenses (before interest expense and abnormals)	**12,200**	**70.5**	11,654	72.9	11,464	75.2

Labour Expense

Labour expense has historically been the Company's largest expense category. Labour expense declined over the three year period and decreased as a percentage of revenue by 5 per cent. This reflected the Company's ongoing programmes to improve work practices, streamline processes, enhance network and systems infrastructure and outsource certain functions, resulting in reductions in the labour force. Labour expense also declined in fiscal 1998 as a result of the changes in accounting policies adopted in fiscal 1997 to capitalise certain labour costs associated with assets under self-construction and software developed for internal use. In fiscal 1997, the reduction in labour expense associated with these changes in accounting policies was recorded as an abnormal item. During fiscal 1998, the Company reduced full time staff numbers by approximately 8,900 which brings total reductions since 1 July 1996 to approximately 20,800 (of which approximately 20 per cent resulted from the outsourcing of activities by the sale of certain businesses and the contracting out of some operations). The reductions in fiscal 1997, however, were offset in part by the addition of 1,500 full-time staff relating to the consolidation of Pacific Access as of 20 June 1997 resulting in a net reported reduction of 19,300. The number of full-time staff at 30 June 1998 was approximately 57,200. The Company's labour force increased in fiscal 1996, principally to support the Company's capital expenditure programmes. However, labour costs associated with these programmes were largely capitalised.

As the Company continues to implement productivity improvements, labour expense is expected to decline in both absolute terms and as a percentage of sales. However, a portion of this decline will be offset by increases in other operating expenses relating to outsourcing of work previously performed within Telstra.

Labour costs were affected by pay increases totalling 5.5 per cent in each of fiscal 1997 and 1996, pursuant to the Company's enterprise agreement with its unions. The Company is negotiating a new enterprise agreement with unions and staff to succeed the agreement which expired on 4 October 1997. As no agreement was reached in fiscal 1998, the provisions of the prior agreement have remained in place and no pay increases were given to staff covered by the agreement in fiscal 1998. In negotiating the new agreement, Telstra aims to increase management and labour flexibility. The new enterprise agreement is expected to result in pay increases, which would offset to some extent the effect of workforce reductions.

During fiscal 1998, Telstra approved a three year plan to fiscal 2001. This three year plan included an additional reduction of approximately 2,000 employees by way of redundancy. As Telstra has identified with sufficient certainty the levels of employees to be made redundant, the initiatives by which the reductions will occur and the expected liability, an additional provision of A$115 million was raised in fiscal 1998. Telstra also reviewed the initiatives being used to reduce staff in fiscal 1998 and this resulted in an additional 796 employees being made redundant at an additional cost of A$88 million. This amount was charged to labour expense in fiscal 1998. See Note 32 to the Financial Statements for the disclosures required by EITF 94-3.

The Telstra Group sponsors or participates in a number of superannuation schemes which provide benefits for its employees and their dependants on cessation of employment. Employer contributions paid to the schemes and expensed for fiscal 1998, 1997 and 1996 were A$294 million, A$340 million and A$320 million, respectively. An actuarial valuation has been conducted on the TSS and the CSS as at 30 June 1997.

Telstra is not presently required to contribute to the CSS, however, past contributions to the CSS has resulted in the Telstra Entity being credited with a surplus in the notional fund of the CSS. The Commonwealth has indicated that repatriation of part of that surplus to the TSS will be permitted where the surplus is greater than 15 per cent of the sum of the employer financed benefits (past and future service) for the Telstra Entity's existing CSS members and outstanding deferred transfer value payments for ex-CSS members who transferred to the TSS. The actuarial valuation as at 30 June 1997 confirmed that the CSS surplus was greater than 15 per cent and the Telstra Entity is in discussions with the Commonwealth regarding the repatriation of this surplus to the TSS.

On the assumption that the CSS surplus, net of 15 per cent contributions tax payable on its transfer into the TSS, is available to increase the assets of the TSS, the actuary has recommended that the Telstra Entity cease defined benefit contributions to the TSS (other than the additional contributions of A$121 million per annum that the Telstra Entity is committed to contribute to the TSS over the next 13 years) for the three year period 1 July 1998 to 30 June 2001. Based on that advice, the Telstra Entity Board of Directors (subsequent to year end) has agreed that the employer contribution rate for the defined benefit component of the TSS will be reduced to nil for the next three years, subject to a satisfactory outcome from the above mentioned discussions and a consequential response from the Minister for Finance.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Direct Cost of Sales

The largest component of direct cost of sales is payments to other Carriers to terminate international outgoing traffic and transit traffic.

Other significant components of direct costs of sales are costs of mobile handsets, dealer bonuses, commissions paid to indirect distribution channels, costs of customer premises equipment sold, directory publishing costs and payments to domestic Carriers to terminate calls.

Direct cost of sales increased during the period principally due to an increase in payments to international Carriers to terminate outgoing calls following increased activity by the Company in the international transit traffic market, increased payments to domestic carriers and growth in the mobile telecommunications market. As a percentage of operating revenue, direct cost of sales increased to 14.9 per cent in fiscal 1998 from 11.5 per cent in fiscal 1996.

Depreciation and Amortisation

Depreciation and amortisation expense has been and will remain a major component of Telstra's cost structure, reflecting the Company's significant level of capital investment over time. Depreciation and amortisation expense remained relatively flat during the period reflecting increases in capital investment in recent periods relating to the Networks and Systems Modernisation Programme, the digital mobile telecommunications network and the Broadband Network which were substantially offset by the extension of the service lives of certain capital assets. Changes in accounting policies adopted in fiscal 1997 to capitalise certain overhead and interest costs associated with assets under self-construction and software developed for internal use contributed to increased depreciation and amortisation expense in fiscal 1998 and is expected to continue to do so in future years. In fiscal 1997, the increase in depreciation and amortisation expense associated with these changes in accounting policies was recorded as an abnormal item.

Other Operating Expenses

Other operating expenses include such costs as accommodation costs (rent, municipal rates, land tax and power), network maintenance material, travelling costs and fares, promotion and advertising, fleet running costs, information technology costs, bad and doubtful debts, service contracts and agreements (outsourced activities, such as information technology, cleaning services and clearing of coin boxes for public telephones), the carrying value of assets disposed of, cost of directory services paper sold and losses from partnerships. Other operating expenses increased in fiscal 1998 principally due to increased outsourcing costs, increased costs to ensure the Company's network and systems are Year 2000 compliant, increased book value of assets sold, promotion and advertising activity and to a lesser degree, additional bad and doubtful debts offset by the effect of changes in accounting policies adopted in fiscal 1997 to capitalise certain overhead costs associated with assets under self-construction and software developed for internal use.

A significant portion of the increase in bad and doubtful debt expense during the period related to certain of the Company's wholesale customers. The Company is involved in significant legal proceedings with four of these wholesale customers for substantial charges Telstra believes remain unpaid for the provision by Telstra of telecommunications services. These four customers have made counter claims against Telstra for substantial amounts. The four customers dispute that the amounts claimed by Telstra or any amounts are owing by them, and contend that they are entitled to offset their claims against amounts claimed by Telstra. The wholesale customers allege that bills were not received, were inaccurate and/or that the Company's billing and account management systems were defective in other ways. The Company believes that it has made appropriate provision for bad and doubtful debts, including with respect to these and other wholesale customers. However, such provisions may or may not prove to be adequate.

Overall other operating expenses are expected to be relatively flat as a percentage of revenue in the near term. This trend is principally due to increased outsourcing costs and costs to ensure that the Company's networks and systems are Year 2000 compliant. In fiscal 1997, the decrease in other operating expenses associated with the changes in accounting policies was recorded as an abnormal item.

Interest Expense

During the three year period, Telstra's interest expense (borrowing costs) increased to A$634 million in 1998 from A$533 million in fiscal 1996. This increase in interest expense was influenced by the level of the Company's debt, declining interest rates and the Company's commitment to fund annually an actuarial shortfall in the TSS and changes in accounting policies adopted in fiscal 1997 to capitalise certain interest costs associated with assets under self-construction and software developed for internal use. The commitment to fund the TSS shortfall increased interest expense in fiscal 1998, 1997 and 1996 by A$96 million, A$98 million, and A$101 million, respectively. On 30 June 1997, the Company fully drew down credit facilities consisting of a A$1 billion 364 day credit facility and a A$2 billion five year credit facility in order to replenish working capital following the payment of a A$3 billion special dividend to the Commonwealth. The A$1 billion facility was fully repaid during fiscal 1998 and the A$2 billion facility was refinanced in 1998 with a more efficient combination of short and long term facilities. In fiscal 1997, the decrease in interest expense associated with the changes in accounting policies referred to above was recorded as an abnormal item.

Abnormals

Abnormal items require separate disclosure in Australia where they are abnormal by reason of their size and effect on the operating profit or loss after income tax.

In fiscal 1998, no abnormals were recognised by the Company.

In fiscal 1997, the Company recognised an abnormal charge of A$1.1 billion for redundancy and associated costs related to its workforce reduction and restructuring programme. During fiscal 1997 and 1998 approximately 5,515 and 7,715 employees

respectively were made redundant (through either voluntary or involuntary means) and a total of A$339 million and A$526 million respectively were charged against the redundancy and restructuring provision.

In order to align further its accounting policies with common practice in the telecommunications industry, Telstra changed certain accounting policies during fiscal 1997 to capitalise software developed for internal use and to capitalise interest and indirect overheads incurred during the self-construction of assets. Prior to these changes, these costs were expensed as incurred rather than capitalised. The effect of these changes in accounting policies in fiscal 1997 was an abnormal benefit to profit before income tax of A$606 million.

In fiscal 1997, the Company recognised an abnormal charge of A$394 million reflecting management's best estimate of its cost to satisfy future obligations related to the JORN project. On 2 October 1997, the Company finalised negotiations with RLM to settle arrangements whereby Telstra will have a right, on certain events happening, to require RLM to assume full responsibility for the completion of the JORN project.

The Broadband Network assets were written down in fiscal 1997 by A$587 million, of which A$245 million was charged to the asset revaluation reserve and the balance of A$342 million was included as an abnormal charge against operating profit before income tax expense. The writedown was based on the present value at 30 June 1997 of the estimated future net cash flows before income tax expense over the remaining service life of the assets from pay television and other benefits derived from the Broadband Network (including telephony customer retention and the ability to provide value-added services) and excluded significant recent pit and pipe capital expenditures which are considered to be shared assets predominantly used for narrowband services. The writedown was caused principally by a reduction in the number of homes to be passed and a reassessment of other potential usages for the Broadband Network. Even after this writedown, however, Telstra does not expect the operation of the Broadband Network to be profitable for at least several years.

In addition, in fiscal 1997, the Company recorded an abnormal charge of A$476 million as a result of an agreement to reduce the rollout of the Broadband Network to 2.5 million homes passed from the previously contracted 4.0 million homes passed. The charge was based on estimated contract settlements of A$390 million as a result of the rollout reduction and a writedown of excess inventory of A$86 million. The provision for Broadband Network contract settlements of A$390 million included an amount of A$300 million which represented the net present value of a contractual obligation for agreed fixed dollar amount reductions in revenue share to be received by Telstra from FOXTEL over the next seven years using a discount rate of 9.7 per cent per annum. In the event that there is insufficient revenue share in a given year to meet the amount of the reduction, Telstra will fund the difference to FOXTEL.

In fiscal 1996, Telstra recognised a A$205 million abnormal depreciation benefit related to a change in methodology for determining the service lives of particular telecommunications assets, principally consisting of copper cables and switching equipment. The methodology was introduced for situations where replacement is determined by technological substitution rather than usage or another basis.

Income Tax Expense

In fiscal 1997, income tax expense was affected by a tax benefit of A$285 million related to depreciation on devalued assets, of which A$216 million related to prior years and was recognised as abnormal.

Income tax expense in fiscal 1998, fiscal 1997 and fiscal 1996 was also reduced by A$113 million, A$66 million and A$87 million respectively, arising from the over provision of income tax in prior years.

Australian GAAP Compared With US GAAP

Under US GAAP, operating profit attributable to shareholders was A$2,674 million, A$1,136 million and A$2,714 million compared with Australian GAAP amounts of A$3,004 million, A$1,617 million and A$2,305 million in fiscal 1998, 1997 and 1996, respectively. Under US GAAP, shareholders' equity was A$14,676 million, A$13,473 million and A$16,633 million in fiscal 1998, 1997 and 1996, respectively, compared with Australian GAAP shareholders' equity of A$11,079 million, A$9,938 million and A$12,668 million in fiscal 1998, 1997 and 1996 respectively.

Differences primarily result from the different treatment of fixed asset revaluations, timing of the adoption of accounting policies for capitalisation of interest, software and indirect overhead costs, superannuation liability recognition, employee compensation expense, timing of recognition of tax rate changes and dividend liabilities. See Note 32 to the Financial Statements.

Liquidity and Capital Resources

Liquidity

Table 13 shows Telstra's cash flows for the three most recent fiscal years.

Table 13 - Cash Flow Data

	Year Ended 30 June		
	1998	1997	1996
	A$m	A$m	A$m
Net cash provided by operating activities	**5,635**	5,254	4,478
Net cash used in investing activities	**(3,609)**	(4,171)	(3,870)
Net cash used in financing activities	**(1,808)**	(1,572)	(1,659)
Net increase/(decrease) in cash.	**218**	(489)	(1,051)

Net Cash Provided by Operating Activities

Telstra's primary source of liquidity is cash generated from operations.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Net cash provided by operating activities is after interest paid, of which A$83 million and A$106 million was capitalised in fiscal 1998 and fiscal 1997 respectively as a result of the accounting policy changes adopted in fiscal 1997. During the three year period from fiscal 1996 to fiscal 1998 net cash provided by operating activities grew on average by 12.2 per cent principally due to improved cash flow from sales to customers and a decrease in corporate income tax paid, offset in part by increased payments to suppliers and interest payments.

Net Cash Used in Investing Activities

Net cash used in investing activities represents amounts paid for capital equipment, trademark licences and investments, offset by receipts from the sale of capital equipment and investments. Over the last three fiscal years, Telstra has committed a substantial amount of capital and other resources to upgrade and rationalise its network infrastructure and improve many of its systems. The Company is in the final stages of the Networks and Systems Modernisation Programme and the rollout of its digital GSM mobile telecommunications network and has completed the rollout of its Broadband Network.

Table 14 shows Telstra's net cash used in investing activities over the last three fiscal years.

Table 14 - Net Cash Used in Investing Activities

	Year Ended 30 June		
	1998	1997	1996
	A$m	A$m	A$m
Switching	**739**	768	659
Transmission	**563**	579	486
Customer access	**672**	848	920
Mobile telecommunications networks	**332**	330	342
Broadband Network	**97**	459	282
International telecommunications infrastructure	**136**	119	197
Other	**1,202**	1,145	1,018
Capital expenditures[1]	**3,741**	4,248	3,904
Investments	**149**	150	167
Capital expenditures and investments[1]	**3,890**	4,398	4,071
Sale of capital equipment, investments and other	**(281)**	(227)	(201)
Net cash used in investing activities	**3,609**	4,171	3,870

(1) *Fiscal 1998 and fiscal 1997, exclude A$83 million and A$106 million respectively of capitalised interest which is reflected in net cash provided by operating activities.*

In fiscal 1998, capital expenditures decreased by A$507 million compared with 1997, reflecting the substantial completion of various large capital expenditure projects, including the Networks and Systems Modernisation Programme and the rollout of the Broadband Network. In fiscal 1997, capital expenditures increased by A$344 million over fiscal 1996 reflecting the additional capitalisation of approximately A$530 million related to the effect of changes in accounting policies made in fiscal 1997, partially offset by a reduction in the Company's capital programme.

Investments in fiscal 1998 included A$92 million contributed to FOXTEL, A$33 million invested in WorldPartners and A$24 million in the Satellite Consortia, INTELSAT and INMARSAT (refer Note 1.9(c) to the Financial Statements). Sale of capital equipment, investments and other in fiscal 1996 included proceeds from the sale of Telstra's interest in Seven Network Limited for A$112 million.

In fiscal 1997, investments principally comprised A$129 million contributed to FOXTEL.

Investments in fiscal 1996 principally comprised A$113 million contributed to FOXTEL and US$40 million invested in the Company's Indonesian joint venture, PT Mitra Global Telekomunikasi Indonesia.

In fiscal 1998 proceeds on sale of capital equipment, investments and other totalled A$281 million and included the disposal of assets to IBMGSA. Sale of capital equipment, investments and other, increased in fiscal 1997 compared with fiscal 1996 due to the sale and leaseback of A$42 million of capital equipment.

Telstra reviews its capital expenditure and investment requirements on a regular basis. The Company expects to incur future capital expenditures in areas including: (i) development of infrastructure and new products and services to meet the evolving needs of customers; (ii) the Data Mode of Operation Programme; (iii) continuation of the digital GSM mobile telecommunications network and a new mobile network based on digital technologies; (iv) anticipated investment in international cables to cater for the expansion of overseas telecommunications traffic; (v) further investment in pay television and on-line services content and development; (vi) investment in offshore ventures; and (vii) provision of enhanced telecommunications services to remote customers through the Company's Remote Area Telecommunications Enhancement Programme. The Company may periodically make investments in, or acquire, complementary businesses.

The Company expects that its cash flow from operating activities will be sufficient to meet anticipated capital expenditures and investments in each of fiscal 1999, 2000 and 2001. To the extent that unforeseen capital expenditures and investments arise or the Company's estimates of its capital requirements prove to be understated and cause capital requirements to exceed net cash provided by operating activities, the Company may need to fund such capital expenditures and investments with debt or other financing.

Net Cash Used in Financing Activities

In fiscal 1998, the increase in cash used for financing activities of A$236 million was principally driven by the net repayment of debt in fiscal 1998 of A$386 million compared with net borrowings in fiscal 1997 of A$2,735 million offset by a reduction in dividends paid of A$2,885 million.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

In fiscal 1997, the decrease in cash used in financing activities of A$87 million reflected primarily a net increase in borrowings of A$3.2 billion, offset by increased dividend payments of A$3.1 billion. The increase in dividends was due mainly to the payment of a special dividend of A$3 billion to the Commonwealth in relation to the recapitalisation of the Company.

The increase in cash used for financing activities in fiscal 1996 to A$1,319 million was mainly due to the net repayment of debt in fiscal 1996 of A$442 million compared with net borrowings in fiscal 1995 of A$453 million, and an increase in dividends paid of A$424 million. As part of the repayments of debt made during fiscal 1996, the Company retired the remaining A$558 million of Government debt then outstanding. The increase in dividends was due mainly to an increase in profits, additional dividends of A$100 million and an increase in the payout ratio from 50 per cent to 55 per cent.

Capital Resources

At 30 June 1998, total debt was A$7.7 billion with net debt of A$6.5 billion after deducting cash of A$953 million, other interest bearing financial assets of A$105 million and loans to employees of A$206 million. Approximately 48 per cent of total debt consisted of domestic borrowings with the balance being sourced from a variety of offshore markets. Current debt (maturing in less than 12 months) comprised approximately 38 per cent of total debt which had an average maturity of approximately five years.

Telstra has access to A$650 million and US$100 million of committed standby bank lines. These facilities comprise bilateral arrangements with seven banks which terminate at various times throughout the year. Telstra has three commercial paper programmes with a total borrowing capacity of A$1 billion and US$2 billion. In each case, commercial paper is issued through a dealer panel on a best endeavours basis. The commercial paper facilities are not committed and do not provide guaranteed access to funds. Telstra requires all foreign currency borrowings to be fully hedged at inception. Telstra does not use derivatives for speculative purposes.

As at the end of fiscal 1998, 1997 and 1996, Telstra had negative working capital of A$4,036 million, A$2,155 million and A$730 million respectively. On 30 June 1997, the Company paid a special dividend of A$3.0 billion to the Commonwealth. Also on 30 June 1997, to finance the replenishment of working capital, the Company drew down credit facilities consisting of: (i) a A$1.0 billion 364 day credit facility, which contributed to the increase in the Company's negative working capital in fiscal 1997; and (ii) a A$2.0 billion five year credit facility. In addition, the expected reduction in the Company's workforce has contributed to the increase in negative working capital due to the increased payables associated with the programme.

As at 30 June 1998 the negative working capital was attributable primarily to the short term borrowings of A$1 billion undertaken to refinance a portion of the syndicated bank loan credit facility drawn down in June 1998.

Telstra typically carries current liabilities in excess of current assets, as is common with most international telecommunications companies. The Company believes that its negative working capital position does not create a liquidity risk because the timing of its discretionary capital expenditures can be adjusted should cash inflows from its diverse customer base diminish at any point in time. Also, the Company's standby bank lines and commercial paper programmes provide additional sources of liquidity should the need arise.

Other Matters

Recently issued US Accounting Standards

In June 1997, the US Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No.130 (SFAS 130), Reporting Comprehensive Income, which is effective for financial statements issued for fiscal years beginning after 15 December 1997. SFAS 130 requires that changes in certain items, including foreign currency translation adjustments, be reported in a statement of comprehensive income that is displayed in equal prominence with the other financial statements. SFAS 130 does not specify the format of the statement of comprehensive income, but it does require that an amount representing total comprehensive income be reported in that statement for all periods for which net income is presented. The Telstra Group does not believe that adoption of SFAS 130 will have a material effect on the Telstra Group's financial statements.

Also in June 1997, the FASB issued Statement of Financial Accounting Standards No.131 (SFAS 131), Disclosures about Segments of an Enterprise and Related Information, which is effective for financial statements issued for fiscal years beginning after 15 December 1997. SFAS 131 establishes standards for the way public companies report information about segments of their business in annual financial statements. SFAS 131 also requires entity-wide disclosures about the products and services an entity provides, its major customers and the countries in which it holds material amounts of assets and reports material amounts of revenue. The standard requires public companies to restate comparative information for earlier years in the initial year of application and to report selected segment information in their interim reports issued to shareholders. SFAS 131 need not be applied to interim financial statements in the initial year of its application. The Telstra Group has not determined the potential effect of this standard on the Telstra Group's financial statements.

In February 1998, the FASB issued Statement of Financial Accounting Standards No.132 (SFAS 132) Employers' Disclosures about Pension and other Post Retirement Benefit Disclosures which is effective for fiscal years beginning after 15 December 1997. SFAS 132 revises employers' disclosures about pensions and other post-retirement plans. In the initial year of application comparatives for the prior year are required to be restated. The Telstra Group has not yet determined the potential effect of this standard on the Telstra Group's financial statements.

In June 1998, the FASB issued Statement of Financial Accounting Standards No.133 (SFAS 133) Accounting for Derivative Instruments and Hedging Activities, which is effective for

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

financial statements issued for fiscal years beginning after 15 June 1999. SFAS 133 establishes accounting and reporting standards for derivative financial instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS 133 broadens the definition of a derivative instrument and significantly modifies the accounting treatment for certain types of derivatives. In the initial year of application comparative information for earlier years is to be restated. The Telstra Group has not yet determined the potential effect of this standard on the Telstra Group's financial statements.

Year 2000

In common with users of computers around the world, Telstra is investigating whether and to what extent, the date change from 1999 to 2000 may affect its networks and systems.

Telstra has established a programme designed to ensure that the impact of the transition to the Year 2000 on the Company and its customers is minimised by seeking to ensure that the Company's key networks and systems are Year 2000 compliant before 31 December 1999. In reviewing its systems, Telstra is placing priority on those systems which could cause significant financial and legal impacts on the Company's business if they were to fail. The Company has also incorporated Year 2000 considerations into its system development and maintenance plans. Telstra's operations, however, may also be affected by the ability of third parties dealing with Telstra to manage the effect of the Year 2000 date change.

Telstra's State of Readiness

Telstra's Year 2000 Programme addresses the year 2000 status of, among other things, telephony and data networks, customer premises equipment, information technology, electronic data information transactions and building support infrastructure (such as building management systems, air conditioning controls and electrical power systems).

The objective of Telstra's Year 2000 Programme is to enable the Company to manage its business operations with minimal risk and financial impact before, during and after the transition from the year 1999 to the year 2000.

Telstra's Year 2000 Programme aims to have Year 2000 compliant versions of:

- critical telecommunications network components tested and deployed in its network by 31 December 1998; and
- critical information technology (IT) applications tested and deployed by 31 December 1998.

Non critical network components and non critical IT applications are being addressed and are intended to be completed through calendar 1999. The overall plan is currently satisfying the above schedule.

Telstra has a major dependency upon its suppliers and is focused on obtaining Year 2000 compliant assurances from suppliers which are critical to its business, or which supply products that are business critical. Telstra is well under way in obtaining compliance information from its suppliers of IT and network products, including customer premises, equipment, Electronic Data Interchange (EDI) and also general products and services.

Telstra is working closely with its suppliers to:

- ensure acceptance of Telstra's Year 2000 compliance definition;
- establish and maintain the currency of the supplier's current Year 2000 compliance position for its products and/or services and the suppliers' schedule for becoming compliant, where relevant; and
- achieve the timely delivery by the suppliers of Year 2000 compliant products and services.

Estimated Cost

Telstra estimates that its Year 2000 Programme will cost up to A$500 million, with the majority of funds expected to be sourced from Telstra's normal cash flows from operations. This cost estimate is in addition to Telstra's budget for other information technology projects and will be expensed as incurred. Telstra's expenditure on Year 2000 in fiscal 1998 was lower than initially anticipated. There were a number of factors which contributed to this including:

- lower than expected volume of remediation work required on some larger IT applications (eg. Flexcab® billing system); and
- deferral of some Year 2000 compliant product deliveries and costs to later in calendar 1998 by some network vendors.

Telstra believes the recorded expenditure to 30 June 1998 of A$60 million is in line with the Company's plan to ensure the key networks and systems are Year 2000 compliant before 31 December 1999. Telstra is also incurring costs in the normal course of business in relation to the upgrade and maintenance of its network and systems that would include Year 2000 compliance costs which cannot be readily distinguished from the normal upgrade and maintenance costs.

The Risks of Telstra's Year 2000 Issues

Whilst Telstra is making efforts to mitigate its risks, there can be no assurance that Telstra's Year 2000 Programme will, in whole or in part, be successful or that the date change from 1999 to 2000 will not materially affect Telstra's operations and financial results.

Telstra has potential exposure to the Year 2000 problem arising out of a number of issues, including the following:

- loss of revenue if Telstra is unable to bill customers or trading partners or if they have difficulty paying because of Year 2000 problems in their own businesses;
- customers or trading partners may attempt to take action against Telstra if Telstra is unable to maintain continuity of service to them;
- regulators may impose fines or take other action against Telstra if Telstra fails to maintain continuity of service and breaches customer service guarantees; and

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

- Telstra's ability to maintain continuity of service may be affected if other domestic or international Carriers or CSPs have Year 2000 problems in their networks.

Telstra's Contingency Plans

Telstra has established contingency plans as part of its standard disaster recovery planning. Contingency plans to deal with the Year 2000 problem will form one aspect of those plans. The development of specific contingency plans for the Year 2000 problem has commenced and will involve work with major vendors and major customers. The Telstra Year 2000 Programme has also established a business focused risk management framework to provide Telstra with a dynamic view of residual business risk across the company.

The risk management process has four elements, as follows:

- risk assessment process to identify and prioritise risks based on business impact, likelihood and current control and to determine actions to improve control effectiveness;
- risk monitoring and reporting on follow-up actions and focusing of management attention on major areas of residual risk;
- internal review process to test risk assessments and effectiveness of follow-up actions in mitigating business risks; and
- independent health assessment of the Year 2000 Programme by external consultants to test approach, status and residual risk. One such assessment has already been completed and a second assessment has been scheduled for October 1998.

Item 9A: Quantitative and Qualitative Disclosures About Market Risk

Financial Risk Management - Sensitivity and Value at Risk Analysis

Telstra is exposed to market risk from changes in interest rates and foreign currency exchange rates as part of its normal business operations. Derivative financial instruments are only used to hedge market risks relating to an underlying physical position in accordance with Board approved policies.

Telstra is exposed to changes in interest rates through its debt requirements with maturities generally ranging to ten years. Telstra uses interest rate swaps, cross currency swaps and futures to achieve a targeted interest rate profile and debt portfolio duration that is in line with its debt management policy. A portion of Telstra's borrowings are denominated in foreign currencies. The foreign currency exchange risk on such borrowings is removed by applying cross currency swaps at drawdown.

Interest rate risk is calculated on Telstra's net debt portfolio. This portfolio is defined as Telstra's financial liabilities less short term financial assets whose value is sensitive to interest rates, including both physical and associated derivative instruments.

Telstra is exposed to foreign currency exchange risk on firm or anticipated transactions relating to revenues and expenditures from international traffic settled in foreign currencies, purchase commitments in foreign currencies and investments denominated in foreign currencies. Forward foreign currency derivatives are used to hedge such exchange rate risk.

Foreign exchange risk is calculated on Telstra's net foreign exchange exposure portfolio. This portfolio is defined as Telstra's underlying foreign exchange exposures combined with its associated foreign exchange derivatives used to hedge the risk.

Telstra measures its exposure to movements in market risks on a fair value basis. The potential costs identified below represent adverse movements in the fair value of Telstra's relevant portfolio.

Sensitivity Analysis

A sensitivity analysis on Telstra's net debt and foreign exchange exposure portfolios has been undertaken based on an instantaneous, adverse proportional movement of 10 per cent in interest rates and exchange rates. This does not necessarily represent a true measure of market volatility since it does not take into account the probability of such an occurrence or the diversification characteristics inherent in the portfolios.

A sensitivity analysis which assumes a 10 per cent instantaneous downward shift in interest rates across all yield curves at 30 June 1998 results in a potential cost on Telstra's net debt portfolio of A$177 million.

A sensitivity analysis which assumes a 10 per cent instantaneous adverse movement in the Australian dollar against each foreign currency to which Telstra is exposed at 30 June 1998 results in a potential cost on Telstra's net foreign exchange exposure portfolio of A$35 million.

Value at Risk

In addition to sensitivity analysis, Telstra has performed "Value at Risk" (VaR) analysis. The VaR numbers represent the maximum potential cost on each portfolio that is expected over a given period of time (known as the holding period) expressed in terms of a specific degree of certainty (known as the confidence interval). The potential cost is derived by applying historical volatility measures to the quantity of market risk identified. Unlike sensitivity analysis, VaR analysis can adjust for the relevant diversification characteristics inherent in Telstra's net debt and net foreign exchange exposure portfolios.

Item 9A: Quantitative and Qualitative Disclosures About Market Risk

The VaR numbers have been determined using a Monte Carlo simulation model based on the JP Morgan RiskMetrics methodology and JP Morgan/Reuters RiskMetrics data sets. The data sets from JP Morgan comprise:

- interest rate and foreign exchange rate volatilities; and
- correlations between interest rates and foreign exchange rates.

The simulation model determines the distribution of the fair value of Telstra's debt portfolio and foreign exchange portfolio at future rates by performing a full portfolio valuation using Telstra's actual transaction portfolio after simulating interest and foreign exchange movements. In deriving the VaR numbers, sufficient simulations (50,000) have been undertaken to ensure the production of stable, robust results.

The VaR figures show the change in market value of the portfolios over a monthly period as a result of movements in market interest rates and foreign exchange rates.

The VaR methodology adopted determines the maximum potential cost with a 99 per cent confidence level (ie. the value for which there is a 1 per cent chance of being exceeded). This maximum potential cost is based on a one month holding period. The one month holding period maximum potential cost can be approximately converted to:

- an equivalent one day potential cost figure by multiplying by a factor of 0.22
- an equivalent twelve month potential cost figure by multiplying by a factor of 3.5

This conversion assumes that the portfolios continue with the same basic profiles such as maturity and mix of debt.

Application of a one month holding period is considered appropriate given that Telstra's hedging activities are of a non-trading nature. This is in contrast to the activities of many financial institutions who would consider a one day period appropriate for this analysis.

The VaR analysis of interest rate risk on Telstra's net debt portfolio at 30 June 1998 has identified that a potential cost over one month of A$212 million has a 1 per cent chance of being exceeded.

The VaR analysis of foreign exchange risk on Telstra's net foreign exchange exposure portfolio at 30 June 1998 has identified that a potential cost over one month of A$26 million has a 1 per cent chance of being exceeded.

A VaR analysis can be undertaken across Telstra's net debt and net foreign exchange exposure portfolios simultaneously to introduce the diversification benefit that exists between these two portfolios. The result of this analysis is that a potential cost which has a 1 per cent chance of being exceeded over a one month period is A$207 million. This compares to the potential cost of greater than A$238 million where the results of the two portfolios are separately undertaken and then added together.

Item 10: Directors and Officers of Registrant

Directors and Executive Officers

As at 26 August 1998, the Directors of Telstra Corporation Limited were as follows:

Directors

Name	Age	Position	Year of Initial Appointment	Year Last Re-Elected (1)
David M. Hoare	65	Chairman	1991	1997
John T. Ralph	65	Deputy Chairman	1996	1997
W. Frank Blount	60	Chief Executive Officer, Director	1992	-
N. Ross Adler	53	Director	1996	1996
Anthony J. Clark	59	Director	1996	1997
Michael H. Codd	58	Director	1992	1996
Malcolm G. Irving	68	Director	1997	1997
Elizabeth A. Nosworthy	52	Director	1991	1996
Christopher I. Roberts	53	Director	1991	1996
John W. Stocker	53	Director	1996	1997
Stephen W. Vizard	42	Director	1996	1996

(1) *Other than the Chief Executive Officer, one third of Directors are subject to re-election by rotation each year.*

On 8 September 1998, two additional non-Executive Directors, Donald McGauchie and Cecilia A. Moar, were appointed to the Telstra Board.

The Chairman, Mr. David Hoare and the Chief Executive Officer, Mr. Frank Blount have made known their intentions to retire. In late calendar 1997 the Chairman indicated he would continue in his position until a convenient date at or after the 1998 Annual General Meeting. Since that time, Mr. Hoare has reviewed his position and confirmed he is willing to continue in his role as Chairman until the end of calendar 1999.

Mr. Blount has also advised that he will continue as Telstra's Chief Executive Officer until the end of calendar 1998 or such other date as is mutually convenient for him and the Telstra Board.

Item 10: Directors and Officers of Registrant

The search for a new Chief Executive Officer is currently underway with a sub-committee of the Board consisting of the Chairman, the Deputy Chairman and the current Chief Executive Officer together with external advisers examining potential candidates from both within Telstra and externally. However, at the time of this report, there has been no announcement or final decision made on the new Chief Executive Officer.

The Executive Officers who were not Directors are:

Name and Position	(1)	(2)
Doug Campbell Group Managing Director, Carrier Services	1998	1989
Robert Cartwright Group Managing Director, Employee Relations	1995	1995
Gerry Moriarty Group Managing Director, Network Technology Group & Multimedia	1998	1993
Paul Rizzo Group Managing Director, Finance & Administration	1993	1993
Peter Shore Group Managing Director, Commercial & Consumer	1997	1981
Ziggy Switkowski Group Managing Director, Business & International	1997	1997
Graeme Ward Group Director, Regulatory & External Affairs	1995	1972
Lindsay Yelland Group Managing Director, Products & Marketing	1996	1992

(1) Year appointed to position
(2) Year appointed to Telstra

The following is a brief biography of each of the Directors and Executive Officers of Telstra Corporation Limited:

Directors

David M. HOARE - BEc, FCPA
Chairman
Director and Chairman since December 1991.
Chairman, Pioneer International Ltd; Director, Bankers Trust Australia Limited, Comalco Ltd and Birkmyre Pty Ltd; Non Executive Chairman of the Board of Partners, Mallesons Stephen Jaques; Fellow of the Senate, University of Sydney; Chairman Designate, Australian Graduate School of Management.

John T. RALPH - AO, FCPA, FTSE, FAICD, FAIM, FAusIMM, Hon LLD (Melb & Qld)
Deputy Chairman
Director and Deputy Chairman since October 1996.
Chairman, Foster's Brewing Group Ltd and Pacific Dunlop Limited; Deputy Chairman, Commonwealth Bank of Australia; Director, BHP Limited, Pioneer International Ltd and The Constitutional Centenary Foundation; President, Australia-Japan Business Co-operation Committee; Member of Board of Melbourne Business School; National Chairman, The Queen's Trust for Young Australians; Chairman of the Australian Foundation for Science.

W. Frank BLOUNT - BSc (Elec Eng), MBA, MS Management
Chief Executive Officer
Chief Executive Officer since January 1992.
Prior to joining the Telstra Entity, Mr. Blount held Presidential positions with the US telecommunications company, AT&T, in sales and marketing, training and education and network operations.

Mr. Blount has held positions including Chairman, National Technical Institute for the Deaf; Chairman, Rochester Institute of Technology; Chairman, Advisory Board, Georgia Institute of Technology and CEO of the New American Schools Development Corporation. He is a Director of Caterpillar Incorporated, First Union National Bank and Entergy Corporation.

N. Ross ADLER - BCom, MBA
Director since October 1996.
Chief Executive Officer and Managing Director, Santos Ltd; Director, Santos Group Companies, Commonwealth Bank of Australia, QCT Resources Ltd and Australian Institute of Petroleum Ltd; Member, Business Council of Australia and Corporations & Securities Panel; Chairman of the Board of the Art Gallery of South Australia; Council Member, The University of Adelaide.

Anthony J. CLARK - AM, FCA, FCPA, FAICD
Director since October 1996.
Chartered Accountant; Partner of KPMG, formerly Managing Partner KPMG NSW for six years; Chairman Maritime Industry Finance Company Limited; Deputy Chairman of Australian Tourist Commission.

Michael H. CODD - AC, BEc (Hons)
Director since February 1992.
Chancellor, Wollongong University; Director, Qantas Airways Limited, MLC Ltd, MLC Lifetime Ltd and Toogoolawa Consulting Pty Ltd; Director and Deputy Chair Australian Nuclear Science and Technology Organisation (ANSTO) and Menzies Foundation; Member: Advisory Board, IBM Australia Ltd; Advisory Board, Spencer Stuart; Advisory Board, Blake Dawson Waldron; and Board of Advisers Constitutional Centenary Foundation; Senior Adviser Asia-Australia Institute.

Malcolm G. IRVING - AM, BCom, Hon DLit
Director since July 1997.
Chairman, Caltex Australia Limited, FAI Life Limited and Australian Industry Development Corporation. He is also a Director of a number of other companies.

Item 10: Directors and Officers of Registrant

Elizabeth A. NOSWORTHY - BA, LLB, LLM
Director since December 1991.
Chairman, Port of Brisbane Corporation; Deputy Chairman, Queensland Treasury Corporation; Director, David Jones Limited, Australian National Industries Limited, Brisbane Airport Corporation Limited, GPT Management Ltd and The Foundation for Development Cooperation Ltd; Councillor, National Competition Council and Member, Australian Greenhouse Office Experts Group on Emissions Trading.

Christopher I. ROBERTS - BCom
Director since December 1991.
Chief Executive Officer and Managing Director, Arnotts Limited; Director, Arnotts Group Companies, Transparency International Australia and Juvenile Diabetes Foundation Inc. and Member Advisory Board Australian Graduate School of Management.

John W. STOCKER - MB, BS, BMedSc, PhD, FRACP, FTSE
Director since October 1996.
Director, Cambridge Antibody Technology Group plc, Circadian Technology Ltd, Foursight Associates Pty Ltd; Chief Scientist, Commonwealth of Australia; Chairman, Australian Science Technology and Engineering Council, Grape and Wine Research and Development Corporation and Chiron Technologies Ltd.

Stephen W. VIZARD - AM, LLB, BA, FAICD
Director since October 1996.
Chairman, Artist Services Group; Board Member, Australian Commercial Television Production Fund, Victorian Multimedia Taskforce, State Library of Victoria Foundation; Member of the Committee, Melbourne Cricket Club; President, Council of Trustees for the National Gallery of Victoria.

Directors appointed on 8 September 1998:

Donald McGAUCHIE
Director since September 1998.
Senior Partner, C&E McGauchie - Terrick West; Director, Australian Centre for International Agricultural Research, Vicgrain Pty Ltd, Victorian Grain Service Pty Ltd; Member, Foreign Affairs Council, Trade Policy Advisory Council, International Policy Council on Agriculture, Food and Trade; Immediate Past President National Farmers Federation.

Cecilia A. MOAR - Dip Teaching
Director since September 1998.
Graduate of the Australian Rural Leadership Program, Member of the Mallee Catchment Management Authority, Member of the Swan Hill Rural City Development & Marketing Board.

Executive Officers who are not Directors:

Doug Campbell - BEng
Mr. Campbell was formerly Group Managing Director, Network and Technology of Telstra. He has also been the Deputy Managing Director of Telecom and President of Canadian National Communications. He is a Fellow of the Australian Institute of Company Directors and of the Institution of Engineers, Australia.

Robert Cartwright - BA (Hons), MBA
Mr. Cartwright worked in the CRA Group of Companies for over 15 years, predominantly in manufacturing with a special focus on change management, operations, finance and strategy. He was formerly President, An Mau Steel, Taiwan and Managing Director, Comalco Rolled Products.

Gerry Moriarty - BEng (Hons)
Mr. Moriarty has 30 years experience in the telecommunications and broadcasting industries in business leadership, strategic business development, content venture management, major project management, engineering management and technical operations with Telstra, the ABC, TVNZ, Broadcast Communications Ltd and NZBC.

Paul Rizzo - BCom, MBA
Before joining Telstra, Mr. Rizzo was Chief General Manager, Retail Banking, of the Commonwealth Bank of Australia. He was previously CEO of the State Bank of Victoria, and prior to that, a member of the Executive Committee of Australia and New Zealand Banking Group Limited where he held a number of senior positions over a period of about 25 years.

Peter Shore - BSc
Mr. Shore was formerly Managing Director of Telstra's International Business Unit and General Manager of OTC's international operations. He has 16 years experience in telecommunications.

Ziggy Switkowski - BSc (Hons), PhD
Dr. Switkowski has been Chief Executive Officer of Optus and Managing Director of Kodak (Australasia) Pty Ltd. He is a Director of Amcor Limited.

Graeme Ward - BEc (Hons)
Mr. Ward has extensive telecommunications industry experience, including senior positions in corporate strategy and planning. He currently leads Telstra's relationship with the Commonwealth Government on regulatory, shareholder and industry policy matters and is the Company's prime interface with the industry regulators.

Lindsay Yelland - BSc
Prior to joining Telstra, Mr. Yelland held numerous positions in the computer industry, including Vice President, Asia-Pacific, Data General Corp and Vice President of Apollo Computer Corporation. Mr. Yelland is a Director of the Australian Information Industry Association.

The business address of each of the above directors and executive officers is c/- the Company Secretary, Telstra Corporation Limited, Level 41, 242 Exhibition Street, Melbourne VIC 3000, Australia.

Corporate Governance

The Telstra Board aims for best practice in the area of corporate governance. This section describes the main corporate governance practices in place for the whole of the year ending 30 June 1998 and those which have been introduced more recently.

Telstra's corporate governance practices continue to evolve as the company moves from a Commonwealth Government-owned business enterprise to a major publicly-listed company with a wide shareholder base. While the Government owns more than 50 per cent of the Shares in Telstra the Company will remain subject to various Ministerial and other controls to which other publicly-listed companies are not subject, including a Ministerial power to give Telstra written directions which the Communications Minister believes are in the public interest (Section 9 Telstra Corporation Act 1991). Nevertheless, within these constraints, the Board will continue to strive to achieve best corporate governance practice.

The Board of Directors

The role of the Board

The Board is accountable to shareholders for the business and affairs of Telstra and delegates responsibility for day-to-day management of the company to the Chief Executive Officer.

Size and composition of the Board

As at 26 August 1998 there were 11 Directors on the Board - 10 non-executive Directors, including the Chairman, and the Chief Executive Officer.

The maximum number of Directors fixed by Telstra's Articles of Association, in the absence of a resolution of shareholders to the contrary, is 13. A person may be appointed as a Director, either to fill a casual vacancy or as an additional director up to the maximum number, only by the Directors after consulting with the Communications Minister or by Telstra by ordinary resolution in general meeting.

Apart from the Chief Executive Officer, one third of the Directors are subject to re-election by rotation each year. A Director appointed by the Directors is subject to re-election at the next Annual General Meeting.

On 8 September 1998, two additional non-executive Directors, Cecilia A Moar and Donald McGauchie were appointed.

The work of the Board

The Board normally meets 11 times each year for scheduled meetings and on other occasions to deal with specific matters which require attention between scheduled meetings.

The regular business considered by the Board includes the following areas:

- Business investments and strategic matters;
- Governance and compliance;
- Chief Executive Officer's report;
- Financial report by the Group Managing Director, Finance and Administration; and
- Business Unit reviews on a rotational basis, ensuring that Directors receive detailed briefings from each of Telstra's senior executives several times during the year.

Directors also liaise with senior management as required.

Committees of the Board

To increase its effectiveness, the Board has operated with committees with responsibility for particular areas.

Until July 1998, there were three Board committees as follows:

- **Finance Committee** - The role of this committee was to consider the Group's financial and strategic position, develop appropriate strategies and recommend decisions to the full Board and monitor the financial performance of the Group.
- **Audit & Compliance Committee** - The role of this committee was to provide oversight of the Group's compliance with external and internal obligations, review of the annual audit program and to provide advice to the Board on matters of due diligence, financial systems integrity and financial risks.
- **Appointments & Compensation Committee** - The role of this committee was to consider senior executive remuneration and to review the reward system for executive management within the Group.

Since the end of the financial year, it was decided that the matters previously considered by the Finance Committee would in future be dealt with by the full Board and accordingly the Finance Committee was dissolved. Other changes include:

- The Audit & Compliance Committee's role was expanded to include overseeing Telstra's risk management program.
- The role of the Appointments & Compensation Committee, renamed the Appointments, Nominations & Compensation Committee was expanded to include overseeing the composition of the Board, the performance of the Board and the appointment and remuneration of the Chairman, Directors, Chief Executive Officer and senior executives.

Non-executive Directors' remuneration

Remuneration of non-executive Directors is determined by the Board within the parameters approved by shareholders from time to time. The maximum aggregate amount of non-executive Directors' remuneration provided for at present is A$750,000. This remuneration is for all services provided by the Directors as Directors including service on committees. Directors are also entitled to be reimbursed for reasonable travelling, accommodation and other expenses incurred in travelling to or from meetings of the Board or committees or when otherwise engaged on the business of the Company in accordance with Board policy.

Corporate Governance

Independent professional advice

Individual Directors and Board committees are able to obtain professional advice independent of advice received from management or the Company's professional advisers, obtainable at the Company's cost after consultation with the Chairman. Such advice would be made available to all Directors. Directors also have access to Company employees, advisers and information on request.

Directors' share dealings

Telstra has in place a share trading policy which prohibits Directors and senior management (and their associates) from engaging in short term trading of the Company's securities and restricts their buying or selling of Telstra securities to the three "window" periods following the release of Telstra's annual results, half-yearly results and the close of Telstra's Annual General Meeting, and at such other times as the Board permits. In addition, Directors and senior management must notify the Company Secretary before they or their close relatives buy or sell Telstra securities. The Company Secretary maintains a register for this purpose.

Furthermore, as required by law, buying or selling of Telstra securities is not permitted at any time by any person who possesses price-sensitive information in relation to Telstra securities.

Conflicts of interest

The Corporations Law and Telstra's Articles of Association require Directors to disclose any conflicts of interest and to abstain from participating in any discussion or voting on matters in which they have a material personal interest. In addition, the Board has developed procedures to be followed by a Director who believes he or she may have a conflict of interest or material personal interest.

Item 11: Compensation of Directors and Officers

For the 1998 fiscal year, the aggregate amount of remuneration earned by the Directors and Executive Officers of Telstra as a group was A$7,677,165.

This amount consists of:

- A$513,572 that has been set aside or accrued by Telstra during fiscal 1998 to provide pension and retirement benefits; and
- A$7,163,593 representing remuneration, other than amounts for pension and retirement benefits.

Executive Officers, as shown under Item 10, participate in two incentive plans and amounts paid and accrued under these plans for fiscal 1998 are included in the above remuneration figures. A general description of the plans is provided under Note 26 to the Financial Statements.

Item 16: Use of Proceeds

The Commonwealth received all the net proceeds of the Initial Public Offering payable under the First Instalment. The net proceeds of the Final Instalment will also be received by the Commonwealth. None of the proceeds have been, or will be, received by the Company.

Report by Directors

This Report by Directors is required under Australian Corporations Law.

The Directors of Telstra Corporation Limited (Telstra Entity), the Chief entity of the economic entity (Telstra or Telstra Group) constituted by the Telstra Entity and its controlled entities, present the following report made out in accordance with a resolution of the Directors for the year ended 30 June 1998.

Principal activity

Telstra's principal activity during the financial year was to provide telecommunications services for domestic and international customers.

Results of operations

Telstra's consolidated net profit for the year was A$3,004 million (1997: A$1,617 million). That amount is after:

- deducting income tax expenses of A$1,468 million (1997: A$464 million); and
- allowing for after tax losses attributable to outside equity interests in controlled entities of A$4 million (1997: A$8 million).

Dividends

Final dividend declared

The Directors have declared a fully franked (at 36 per cent) Class C final dividend of seven cents per share or instalment receipt totalling A$901 million to shareholders and instalment receipt holders. The dividend will be paid to shareholders and instalment receipt holders out of profits for the year ended 30 June 1998 on 30 October 1998.

Interim dividend declared and paid

For the year ended 30 June 1998, the Telstra Entity paid (on 31 March 1998) a fully franked (at 36 per cent) Class C interim dividend of seven cents per share or instalment receipt totalling A$901 million to shareholders and instalment receipt holders. It was paid out of that year's profits as declared by the Directors in the Directors' Report dated 18 February 1998 (for the half year ended 31 December 1997).

Last year end final dividend paid

For the year ended 30 June 1997, the Telstra Entity paid (on 31 October 1997) a final fully franked (at 36 per cent) Class C dividend of A$521 million to the Commonwealth as sole shareholder. That dividend was paid out of that year's profits as recommended by the Directors in the Directors' Report dated 29 August 1997 (for the year ended 30 June 1997).

Franking Credits

The balance of the Telstra Entity's Class C Franking Account at 30 June 1998 was A$315 million. As at 30 June 1998, the Telstra Entity is entitled to use these franking credits to frank dividends for the next financial year.

It is expected that for the 1998/99 financial year the Telstra Entity will be able to fully frank declared ordinary dividends. It is unlikely that, under current legislation, the Telstra Entity will be able to fully frank declared ordinary dividends out of 1999/2000 earnings.

On 13 May 1997, the Commonwealth Treasurer announced changes to income tax laws dealing with franking dividends. If they are enacted the franking credits of the Telstra Entity of 13 May 1997 will be cancelled and the equivalent amount of exempting credits will be created. Exempting credits will be equivalent to franking credits and do not affect the expectations in relation to ordinary dividends out of 1999/2000 earnings.

Arrangements have been put in place between the Commonwealth and the Telstra Entity in relation to the use of exempting credits in lieu of equivalent franking credits.

Review of Operations

For the year to 30 June 1998, Telstra's operating revenue increased by 8.3 per cent. Revenue from traditional products remained relatively flat while the principal growth was experienced in the following non- traditional areas:

- the strong growth in data and text services and mobiles telecommunications services;
- increased traffic in fixed to mobiles revenue;
- continued expansion in data and text services; and
- the consolidation of the 75 per cent owned Pacific Access for the first full year.

Intercarrier services revenue grew during the year, reflecting increased sales to other Carriers. However, revenue from fixed-to-fixed national long distance calls and international telephone services was lower due to continued competitive pressure.

Overall, Telstra's operating expenses (before interest expense and abnormals) increased by 4.7 per cent for the year but fell as a percentage of revenue.

Labour costs were reduced by 7.8 per cent as the impact of staff reductions announced in the prior year began to take effect. The Enterprise Agreement was not finalised during 1997/98 delaying both the wage adjustment for staff and the flexibility benefits for the Company. An additional provision for redundancy was also made for approximately 2,000 staff by the year 2001 in line with the revised three year plan.

Report by Directors

Direct cost of sales increased by 27 per cent mainly due to:

- increased transit traffic and payments to other Carriers for traffic terminating on their networks; and
- increased terminal subsidies and dealer bonuses as customers move to the digital mobiles network in anticipation of the closure of analogue before Year 2000.

Depreciation remained relatively flat as a combination of lower current year capital expenditure, annual service life reviews of existing assets and the flow on effects from increased capitalisation due to accounting policy changes adopted in 1996/97.

Other operating expenses increased by 10.2 per cent to A$3.6 billion due mainly to:

- increased costs of information technology and contract payments as a result of outsourcing;
- consolidation of Pacific Access for the first time;
- increase in promotion and advertising due to the new competitive environment mainly targeted at mobiles, long distance, Internet and special promotion for the new Calling Number Display product.

Borrowing costs rose during the current year as a result of the increased borrowings of approximately A$3 billion that occurred at the end of the prior year.

Income tax attributable to operating profit increased by A$1,004 million from A$464 million in the year to 30 June 1997 to A$1,468 million. This increase is primarily because of abnormal items that were recorded in the year ended 30 June 1997.

Telstra's capital expenditure amounted to A$3,973 million (1997: A$4,504 million) in the year ended 30 June 1998. The majority of this amount was spent on network modernisation and expansion.

Significant changes in the state of affairs

During the financial year, Telstra experienced the following significant changes in the state of its affairs:

- The Commonwealth of Australia (the Commonwealth) sold 33.33 per cent of its Shares in Telstra. Trading in these Shares (in the form of Instalment Receipts) began on 17 November 1997. The Commonwealth's sale involved a global offering of 4,283.9 million Telstra Shares.
- At the time of the partial sale of Telstra, approximately 137.6 million Shares (Instalment Receipts) were sold to approximately 55,748 Telstra employees. These employees chose to participate in the Telstra Employee Share Ownership Plan. The Plan was made available to all eligible employees at 20 September 1997. It involved Telstra providing interest free loans of approximately A$213 million to assist employees to pay for the first instalment. Of the 137.6 million Shares sold to employees, approximately 28.2 million were provided under the offer of one free extra Share for four Shares purchased.

Year 2000 date change disclosure

Potential Effect on Networks, Systems and Computer Chip Dependent Equipment

In common with businesses around the world, Telstra is investigating to what extent the date change from 1999 to 2000 may affect its networks, systems and computer chip dependent equipment. The objective of Telstra's Year 2000 Programme is to enable Telstra to manage its business operations with minimal risk and financial impact before, during and after the transition from the year 1999 to the year 2000. Telstra's Year 2000 Programme aims to ensure that Telstra's key networks and systems are Year 2000 compliant in accordance with Telstra's criteria by 31 December 1998, with lesser priority areas compliant by the end of 1999. In reviewing its systems, Telstra is placing priority on those systems which could have significant financial and legal effects on Telstra if they were to fail. Telstra has also incorporated Year 2000 considerations into its system development and maintenance plans. Telstra expects to spend up to A$500 million on its Year 2000 Programme by 30 June 2000.

While Telstra is making every effort to mitigate its risks, there can be no absolute assurance that Telstra's Year 2000 Programme will be completely successful, or that the date change from 1999 to 2000 will not materially affect its operations and financial results. Telstra's operations may also be affected by the ability of third parties, dealing with Telstra, to manage their Year 2000 date change requirements.

Events after the balance date

The Directors are not aware of any matter or circumstance that has arisen since the end of the year other than the matter noted below that (in their opinion) has significantly affected, or may significantly affect:

- Telstra's operations in later financial periods;
- the results of those operations; or
- the state of Telstra's affairs.

The Telstra Entity's past contributions to the Commonwealth Superannuation Scheme (CSS) has resulted in the Telstra Entity being credited with a surplus in the notional fund of the CSS. The Commonwealth has indicated that repatriation of part of that surplus to the Telstra Superannuation Scheme (TSS) will be permitted where the surplus is greater than 15 per cent of the sum of the employer financed benefits (past and future service) for the Telstra Entity's existing CSS members and outstanding deferred transfer value payments for ex-CSS members who transferred to the TSS. The actuarial valuation as at 30 June 1997 confirmed that the CSS surplus was greater than 15 per cent and the Telstra Entity is in discussions with the Commonwealth regarding the repatriation of this surplus to the TSS.

Report by Directors

On the assumption that the CSS surplus, net of 15 per cent contributions tax payable on its transfer into the TSS, is available to increase the assets of the TSS, the actuary has recommended that the Telstra Entity cease defined benefit contributions to the TSS (other than the additional contributions of A$121 million per annum that the Telstra Entity is committed to contribute to the TSS over the next 13 years) for the three year period 1 July 1998 to 30 June 2001. Based on that advice, the Telstra Entity Board of Directors (subsequent to year end) has agreed that the employer contribution rate to the TSS will be reduced to nil for the next three years, subject to a satisfactory outcome from the above mentioned discussions and a consequential response from the Minister for Finance and Administration.

Likely Developments

The Directors believe, on reasonable grounds, that Telstra would be likely to be unreasonably prejudiced if the Directors were to provide more information (than there is in this report or the financial statements) about:

- the likely developments in Telstra's operations; or
- the expected results of those operations in the future.

Information on Directors

Telstra's Directors at the date of this report are listed on pages 59 to 61 and page 68 with:

- details of their qualifications and experience;
- their special responsibilities; and
- details of the Shares held by each of them.

Those details were required to be notified to the Australian Stock Exchange.

Directors' Benefits

The details of any benefit that a Director has received (or is entitled to receive) that might have to be reported under Section 309 of the Corporations Law are as follows (for further details refer to Notes 25 and 29 of the Financial Statements):

(a) Each Director (and any firms of which they are members and any entities in which they have a substantial financial interest) receives telecommunications services from Telstra. Some also enter into other minor transactions with Telstra; those transactions are on normal commercial terms and conditions.

(b) A. J. Clark is a partner in the accounting firm KPMG which provided professional services to Telstra during the period on normal commercial terms and conditions.

(c) A number of entities that are "Director related entities" of S. W. Vizard are involved in joint ventures with an associate entity of Telstra to provide pay television programming. Each party to the joint ventures has contributed capital in proportion to its equity interests. In accordance with the joint venture arrangements, the joint ventures have paid programming, licence and cable distribution fees to the Director related entities. All of the relevant transactions are on normal commercial terms and conditions. Those arrangements were established before S. W. Vizard became a Director of Telstra. The relevant companies are:

  - Artist Services Pty Ltd;
  - Artist Services Cable Pty Ltd; and
  - Artist Cable Management Pty Ltd.

  Also, during the year ended 30 June 1998, one of Telstra's controlled entities has provided funding (on normal commercial terms and conditions) to a Director related entity of S. W. Vizard. That entity is called Artsim. The funding is for Artsim to develop an Internet online service providing management and information services. This arrangement arose out of negotiations that began before S. W. Vizard became a Director of Telstra.

Telstra has entered into arrangements to indemnify (to the extent permitted by law) each Director in relation to all conduct arising in accordance with the Directors' duties. Those arrangements are contained in a Deed of Access, Indemnity and Insurance dated 27 November 1997 in favour of each Director.

Indemnification and insurance of officers

Articles of Association

Telstra's Articles of Association indemnify (to the extent permitted by law) each officer for any liability:

- incurred as an officer - as long as the liability does not arise out of conduct involving a lack of good faith; and
- for costs and expenses incurred in successfully defending civil or criminal proceedings in his or her capacity as an officer.

An "officer" is any person who is, or has been, a Director, Secretary or Executive Officer of any of:

- the Telstra Entity;
- a wholly owned subsidiary of Telstra; or
- a related body corporate of Telstra while also a Director or an employee of Telstra or a wholly owned subsidiary of Telstra.

The names of the Telstra Directors who are covered by this indemnity are listed on page 59. The name of the Secretary covered by this indemnity, and by the Deed of Indemnity referred to below, is Michael Montalto.

Report by Directors

Telstra's Articles of Association also indemnify any Telstra employee or officer who, at Telstra's request, is a Director of an entity that is not a related body corporate of Telstra. That indemnity applies:

- to any liability incurred by that person in his or her capacity as a Director of that entity; and
- only if that person complies with Telstra's policy on the appointment, conduct and indemnification of nominee Directors.

Telstra's Articles of Association also allow it to indemnify any person as Director, Secretary or executive officer of a related body corporate (that is not a wholly owned subsidiary of Telstra) even though he or she is not an employee or a Director of Telstra or of one of its wholly owned subsidiaries. However, as a matter of policy, Telstra will only do so if that Director, Secretary or Executive Officer acts as Telstra's nominee.

As a shareholder in related bodies corporate, Telstra is a party to the Articles of Association of those bodies corporate. The Articles of Association of those bodies corporate indemnify:

- officers of the related bodies corporate against all liability - other than liability to the Telstra Group, or liability arising from conduct involving a lack of good faith; and
- officers and auditors against liability for costs and expenses incurred in successfully defending civil or criminal proceedings in that capacity.

Indemnity Agreements

Since 1 July 1997, Telstra made the following arrangements indemnifying officers against liability:

- A Deed of Indemnity dated 3 July 1998 indemnifying each of its officers (but not Directors). That Deed is consistent with the indemnities provided under the Articles of Association. It replaces an earlier Deed of General Indemnity dated 17 October 1996.
- A Deed of Access, Indemnity and Insurance dated 27 November 1997 indemnifying each Director. The Deed provides an indemnity (to the extent permitted by law) for liabilities from conduct arising in connection with a Director's duties.
- A Deed of Indemnity dated 9 August 1997 indemnifying Telstra's (and its wholly owned subsidiaries') employees (but not Directors) and certain contractors. The indemnity applies to all their liability (other than limited exceptions) that arises in their capacity as employees or contractors in connection with the partial sale of Telstra.

Also, the trust deed of each superannuation scheme that Telstra has entered into indemnifies the Directors of the related body corporate that acts as trustee of the scheme. The indemnity applies to any liability (to the extent permitted by law) arising out of their being Directors. The cost of the indemnity is paid out of the scheme fund.

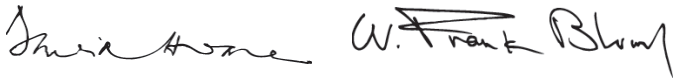
Insurance premiums and contracts

Since 1 July 1997, Telstra has (to the extent permitted by law) paid, or agreed to pay, a premium for a contract insuring any person who is or was a Director, Secretary or Executive Officer of Telstra or of its controlled entities for certain liabilities. The names of the Telstra Entity's Directors and Secretary insured under the contract are the persons named in relation to the indemnity agreement disclosed above. The contract prohibits disclosure of the premium and the nature of the liabilities insured.

Rounding off of amounts

The Telstra Entity is a company of the kind referred to in the Australian Securities & Investments Commission Class Order (97/1005) dated 9 July 1997 issued pursuant to Section 313(6) of the Corporations Law, and, in accordance with that Class Order, amounts in the financial statements and this report have been rounded off to the nearest million dollars unless specifically stated to be otherwise.

For and on behalf of the Board



David M. Hoare
Director
Date: 26 August 1998

W. Frank Blount
Director

Report by Directors

Attendance At Board and Board Committee Meetings During Financial Year Ended 30 June 1998

	Board		Committees					
			Finance		Audit and Compliance		Appointments and Compensation	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
D.M. Hoare	18	16	8	8	6	6	4	4
J.T. Ralph	18	18	8	7	6	5	4	4
W.F. Blount	18	18	8	8	6	6	4	4
N.R. Adler	18	15	-	-	6	6	-	-
A.J. Clark	18	17	8	7	-	-	-	-
M.H. Codd	18	16	-	-	6	6	-	-
M.G. Irving (c)	18	17	-	-	6	4	-	-
E.A. Nosworthy	18	18	8	7	-	-	-	-
C.I. Roberts	18	15	8	8	-	-	-	-
J.W. Stocker	18	14	-	-	6	6	-	-
S.W. Vizard	18	15	8	4	-	-	-	-

(a) Number of meetings held while a member.
(b) Number of meetings attended.
(c) M.G. Irving's appointment commenced on 10 July 1997.

Particulars Of Shares Held by Directors in the Telstra Entity As At 26 August 1998

	Direct Interest	Indirect interest	Total (a)
D.M. Hoare	11,720	16,000	27,720
J.T. Ralph	600	40,000	40,600
W.F. Blount (b)	12,700	-	12,700
N.R. Adler	8,000	42,000	50,000
A.J. Clark	8,000	40,000	48,000
M.H. Codd	8,000	-	8,000
M.G. Irving	8,000	8,000	16,000
E.A. Nosworthy	5,600	11,000	16,600
C.I. Roberts	16,000	30,360	46,360
J.W. Stocker	400	32,080	32,480
S.W. Vizard	-	16,000	16,000

(a) Instalment Receipts evidence full beneficial ownership of an ordinary Share. Refer Corporate Governance Statement or Note 29 of the Financial Statements for the policy relating to share dealings.

(b) Includes 2,000 Shares acquired with an interest free loan plus 500 free Shares under the terms of the Telstra Employee Share Ownership Plan. In addition, W. Frank Blount is entitled to 200 loyalty Shares obtained under the 1 for 10 loyalty offer available to all employees who participated in the public offer.

Telstra Corporation Limited and controlled entities

ACN 051 775 556

Financial Statements

as at 30 June 1998

Page No.

Profit and Loss Account 70
Balance Sheet 71
Statement of Cash Flows 72

Notes to and forming part of the Financial Statements

Note 1 - Summary of Significant Accounting Policies 75
Note 2 - Other Revenue 83
Note 3 - Operating Profit 84
Note 4 - Income Tax Expense 87
Note 5 - Dividends 88
Note 6 - Cash 89
Note 7 - Receivables 90
Note 8 - Inventories 91
Note 9 - Investments 91
Note 10 - Property, Plant and Equipment 92
Note 11 - Intangible Assets 94
Note 12 - Other Assets 94
Note 13 - Accounts Payable 95
Note 14 - Borrowings 96
Note 15 - Provisions 99
Note 16 - Share Capital: Telstra Entity 100
Note 17 - Telstra Employee Share Ownership Plan 101
Note 18 - Reserves 103
Note 19 - Expenditure Commitments 104
Note 20 - Contingent Liabilities 106
Note 21 - Superannuation Commitments 108
Note 22 - Investments in Controlled Entities 111
Note 23 - Investments in Associated Entities and Partnerships 114
Note 24 - Segment Information 117
Note 25 - Directors' Remuneration 118
Note 26 - Executives' Remuneration 119
Note 27 - Auditors' Remuneration 121
Note 28 - Events Subsequent to Balance Date 121
Note 29 - Related Party Transactions 122
Note 30 - Earnings Per Share 126
Note 31 - Additional Financial Instruments Disclosures 127
Note 32 - United States Generally Accepted Accounting Principles (US GAAP) Disclosures 134

Statement by Directors 149

Independent Audit Reports 150

These financial statements incorporate full disclosure requirements under both Australian and United States generally accepted accounting principles.

Profit and Loss Account

for the year ended 30 June 1998

	Note	Telstra Group Year Ended 30 June 1998 $m	1998 US $m	1997 $m	1996 $m	Telstra Entity Year Ended 30 June 1998 $m	1997 $m
Operating revenue							
Sales revenue		**16,819**	**10,441**	15,436	14,716	**16,498**	15,426
Other revenue	2	**483**	**300**	547	523	**571**	1,021
		17,302	**10,741**	15,983	15,239	**17,069**	16,447
Operating expenses							
Labour		**3,665**	**2,275**	3,973	3,997	**3,451**	3,852
Direct cost of sales		**2,582**	**1,603**	2,033	1,748	**2,313**	1,823
Depreciation and amortisation	3(a)	**2,322**	**1,441**	2,353	2,351	**2,206**	2,244
Other operating expenses	3(a)	**3,631**	**2,254**	3,295	3,368	**3,929**	3,715
Borrowing costs	3(a)	**634**	**394**	524	533	**604**	520
		12,834	**7,967**	12,178	11,997	**12,503**	12,154
Operating profit before abnormals and income tax expense	3(a)	**4,468**	**2,774**	3,805	3,242	**4,566**	4,293
Abnormals	3(b)	**-**	**-**	(1,732)	205	**-**	(1,932)
Operating profit before income tax expense		**4,468**	**2,774**	2,073	3,447	**4,566**	2,361
Income tax expense attributable to operating profit	4	**1,468**	**911**	680	1,145	**1,723**	1,164
Abnormal income tax credit	3(c),4	**-**	**-**	(216)	-	**-**	(216)
Income tax expense	4	**1,468**	**911**	464	1,145	**1,723**	948
Operating profit after income tax expense		**3,000**	**1,863**	1,609	2,302	**2,843**	1,413
Outside equity interests in operating loss after income tax expense		**4**	**2**	8	3	**-**	-
Operating profit after income tax expense attributable to the Telstra Entity shareholders		**3,004**	**1,865**	1,617	2,305	**2,843**	1,413
Retained profits at the beginning of the financial year attributable to the Telstra Entity shareholders		**3,368**	**2,091**	5,868	4,931	**3,179**	5,883
Aggregate of amounts transferred from reserves	18	**-**	**-**	29	-	**-**	29
Total available for appropriation		**6,372**	**3,956**	7,514	7,236	**6,022**	7,325
Dividends provided for or paid	5	**1,802**	**1,119**	4,146	1,368	**1,802**	4,146
Retained profits at the end of the financial year attributable to the Telstra Entity shareholders	23(i)	**4,570**	**2,837**	3,368	5,868	**4,220**	3,179
		¢	**US ¢**	¢	¢		
Basic earnings per share (cents)	30						
Before abnormals		**23.3**	**14.4**	20.0	16.9		
After abnormals		**23.3**	**14.4**	12.6	17.9		
Dividends per share (cents)	5						
Interim dividend		**7.0**	**4.3**	28.2	5.3		
Final dividend		**7.0**	**4.3**	4.0	5.3		
Total dividend		**14.0**	**8.6**	32.2	10.6		

The accompanying notes form an integral part of these financial statements.

Balance Sheet

as at 30 June 1998

	Note	Telstra Group As At 30 June 1998 $m	Telstra Group As At 30 June 1998 US $m	Telstra Group As At 30 June 1997 $m	Telstra Entity As At 30 June 1998 $m	Telstra Entity As At 30 June 1997 $m
Current Assets						
Cash	6	**953**	**592**	742	**872**	674
Receivables	7	**3,178**	**1,973**	3,386	**3,236**	3,949
Inventories	8	**243**	**151**	237	**239**	231
Future income tax benefit		**-**	**-**	552	**-**	518
Other assets	12	**136**	**84**	192	**129**	180
Total Current Assets		**4,510**	**2,800**	5,109	**4,476**	5,552
Non Current Assets						
Receivables	7	**241**	**150**	108	**328**	167
Inventories	8	**27**	**17**	36	**27**	34
Investments	9	**228**	**142**	213	**381**	409
Property, plant and equipment	10	**19,756**	**12,264**	18,943	**19,251**	18,461
Future income tax benefit		**787**	**489**	933	**425**	700
Intangible assets	11	**496**	**308**	224	**455**	200
Other assets	12	**425**	**264**	292	**424**	291
Total Non Current Assets		**21,960**	**13,634**	20,749	**21,291**	20,262
Total Assets		**26,470**	**16,434**	25,858	**25,767**	25,814
Current Liabilities						
Accounts payable	13	**2,485**	**1,543**	2,665	**2,389**	3,249
Borrowings	14	**2,935**	**1,822**	1,560	**2,869**	1,511
Provisions	15	**2,460**	**1,527**	2,318	**2,268**	2,109
Revenue received in advance		**666**	**413**	721	**619**	680
Total Current Liabilities		**8,546**	**5,305**	7,264	**8,145**	7,549
Non Current Liabilities						
Accounts payable	13	**700**	**435**	710	**844**	763
Borrowings	14	**4,787**	**2,972**	6,421	**4,714**	6,330
Provisions	15	**1,358**	**843**	1,525	**1,101**	1,234
Total Non Current Liabilities		**6,845**	**4,250**	8,656	**6,659**	8,327
Total Liabilities		**15,391**	**9,555**	15,920	**14,804**	15,876
Net Assets		**11,079**	**6,879**	9,938	**10,963**	9,938
Shareholders' Equity						
Parent Entity						
Share capital	16	**6,433**	**3,994**	6,433	**6,433**	6,433
Reserves	18,23(i)	**30**	**19**	85	**310**	326
Retained profits	23(i)	**4,570**	**2,837**	3,368	**4,220**	3,179
Shareholders' equity attributable to the Telstra Entity shareholders		**11,033**	**6,850**	9,886	**10,963**	9,938
Outside Equity Interests						
Share capital		**41**	**25**	30	**-**	-
Reserves		**25**	**16**	21	**-**	-
Retained profits		**(20)**	**(12)**	1	**-**	-
Total outside Equity Interests		**46**	**29**	52	**-**	-
Total Shareholders' Equity		**11,079**	**6,879**	9,938	**10,963**	9,938
Expenditure commitments and contingent liabilities	19,20					

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

for the year ended 30 June 1998

	Telstra Group Year Ended 30 June				Telstra Entity Year Ended 30 June	
	1998 $m	**1998 US $m**	1997 $m	1996 $m	**1998 $m**	1997 $m
Cash flows from operating activities						
Receipts from trade and other debtors	**16,709**	**10,373**	15,068	14,526	**16,928**	14,822
Payments of accounts payable and to employees	**(9,807)**	**(6,088)**	(8,536)	(8,795)	**(10,088)**	(8,049)
Interest received	**48**	**30**	80	117	**47**	79
Interest paid	**(559)**	**(347)**	(385)	(375)	**(562)**	(388)
Finance charges on finance leases paid	**(16)**	**(10)**	(18)	(20)	**(9)**	(10)
Dividends received	**29**	**18**	40	27	**50**	48
Income taxes paid	**(769)**	**(477)**	(995)	(1,002)	**(712)**	(964)
Net cash provided by operating activities (i)	**5,635**	**3,499**	5,254	4,478	**5,654**	5,538
Cash flows from investing activities						
Payments for:						
- patents, trademarks and licences	**(228)**	**(142)**	(57)	(49)	**(222)**	(57)
- property, plant and equipment	**(3,286)**	**(2,040)**	(3,945)	(3,839)	**(3,227)**	(3,927)
- shares in other corporations	**-**	**-**	(1)	(2)	**-**	-
- shares in controlled entities	**-**	**-**	-	-	**(289)**	(865)
- shares in associated entities	**-**	**-**	-	(51)	**-**	-
- satellite consortia investments	**(24)**	**(15)**	(18)	(1)	**(24)**	(18)
- investment in partnerships	**(125)**	**(78)**	(129)	(113)	**-**	-
- investment in joint ventures	**-**	**-**	(2)	-	**-**	(2)
- deferred expenditure	**-**	**-**	(8)	(16)	**-**	(8)
- capitalised software	**(227)**	**(141)**	(238)	-	**(227)**	(238)
Proceeds from:						
- sale of property, plant and equipment	**255**	**158**	176	73	**333**	652
- sale of patents, trademarks and licences	**11**	**7**	-	-	**-**	-
- sale of listed securities	**-**	**-**	-	112	**-**	-
- sale of shares in controlled entities	**-**	**-**	26	-	**-**	26
- sale of shares in associated entities	**-**	**-**	-	14	**-**	-
- share buy-back by controlled entity	**-**	**-**	-	-	**-**	7
- satellite consortia investments	**7**	**4**	25	2	**7**	25
- deferred expenditure	**8**	**5**	-	-	**8**	-
Net cash used in investing activities	**(3,609)**	**(2,242)**	(4,171)	(3,870)	**(3,641)**	(4,405)
Cash flows from financing activities						
Proceeds from:						
- Telecom/Telstra bonds issue	**-**	**-**	1	263	**-**	1
- borrowings	**8,708**	**5,406**	7,841	6,087	**8,553**	7,808
Repayment of:						
- Telecom/Telstra bonds	**(192)**	**(119)**	(126)	(426)	**(192)**	(126)
- borrowings	**(8,834)**	**(5,483)**	(4,906)	(6,289)	**(8,694)**	(4,900)
- principal under finance leases	**(68)**	**(42)**	(75)	(77)	**(49)**	(56)
Dividends paid	**(1,422)**	**(883)**	(4,307)	(1,217)	**(1,422)**	(4,307)
Net cash used in financing activities	**(1,808)**	**(1,121)**	(1,572)	(1,659)	**(1,804)**	(1,580)
Net increase/(decrease)	**218**	**136**	(489)	(1,051)	**209**	(447)
Cash at the beginning of the year	**730**	**453**	1,219	2,270	**663**	1,110
Cash at the end of the year (ii)	**948**	**589**	730	1,219	**872**	663

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows (Continued)

for the year ended 30 June 1998

	Note	Telstra Group Year Ended 30 June 1998 $m	1998 US $m	1997 $m	1996 $m	Telstra Entity Year Ended 30 June 1998 $m	1997 $m
Cash Flow Notes							
(i) Reconciliation of net cash inflows provided by operating activities to operating profit after income tax expense							
Operating profit after income tax expense		**3,000**	**1,863**	1,609	2,302	**2,843**	1,413
Add/(subtract) non cash transactions							
Depreciation and amortisation	3(a),3(b)	**2,322**	**1,441**	2,353	2,146	**2,206**	2,244
Share of associated entities' net profit after income tax expense	2,23(i)	**(14)**	**(9)**	-	-	**-**	-
Dividends received from associated entities	23(i)	**8**	**5**	-	-	**-**	-
Writedown of broadband network communication assets		**-**	**-**	342	-	**-**	-
Writedown of property, plant and equipment	3(a)	**16**	**10**	-	-	**16**	-
Profit on sale of controlled entities		**-**	**-**	(23)	-	**-**	(23)
Profit on sale of associated entities		**-**	**-**	-	(2)	**-**	-
Profit on sale of listed securities		**-**	**-**	-	(50)	**-**	-
Net loss on sale of property, plant and equipment	3(a)	**58**	**36**	39	43	**62**	40
Profit on sale of patents, trademarks and licences	3(a)	**(11)**	**(7)**	-	-	**-**	-
Increase/(decrease) in net taxes payable		**740**	**459**	(568)	177	**849**	(267)
Stocktake adjustment to property, plant and equipment		**7**	**4**	(5)	(13)	**7**	(5)
Capitalised interest costs	3(a),3(b)	**(83)**	**(52)**	(106)	-	**(82)**	(102)
Partnership losses	3(a)	**83**	**52**	106	81	**-**	-
Provision for diminution in investments	3(a),3(b)	**34**	**21**	8	14	**514**	1,118
Net foreign currency differences		**(9)**	**(6)**	3	-	**7**	1
Changes in assets and liabilities							
Decrease/(increase) in trade and other debtors		**183**	**115**	(396)	(409)	**660**	(589)
Decrease in inventories		**3**	**2**	135	63	**1**	101
Decrease/(increase) in prepayments		**3**	**2**	(23)	(2)	**(1)**	(19)
(Decrease)/increase in accounts payable and other creditors		**(265)**	**(164)**	518	33	**(1,018)**	807
(Decrease)/increase in provisions		**(447)**	**(277)**	1,252	102	**(410)**	819
Movement in foreign currency translation reserve	18	**7**	**4**	10	(7)	**-**	-
Net cash inflows from operating activities		**5,635**	**3,499**	5,254	4,478	**5,654**	5,538
(ii) Reconciliation of cash							
Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the financial statements as follows:							
Cash	(Note 6)	**953**	**592**	742	1,219	**872**	674
Bank overdraft	(Note 14)	**(5)**	**(3)**	(12)	-	**-**	(11)
		948	**589**	730	1,219	**872**	663

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows (Continued)

for the year ended 30 June 1998

Cash Flow Notes (Continued)

(iii) Non cash financing and investing activities

Roll over of Telecom/Telstra bonds

During the year ended 30 June 1998 $Nil (1997: $Nil; 1996: $64 million) of Telecom/Telstra Bonds matured and were re-invested by the lenders. As these transactions did not involve cash, they are not reflected in the cash flows from financing activities.

Property, plant and equipment

Property, plant and equipment for the Telstra Group includes $78 million for the year ended 30 June 1998 (1997: $96 million; 1996: $Nil) of interest which has been capitalised.

The Telstra Group acquired plant and equipment by means of finance leases with an aggregate fair value of $Nil during the year ended 30 June 1998 (1997: $66 million; 1996: $23 million). These non cash acquisitions are not reflected in the statement of cash flows. Finance lease liability includes $1 million (1997: $3 million; 1996: $37 million) relating to non cash foreign currency revaluations.

Capitalised software

Capitalised software for the Telstra Group includes $5 million for the year ended 30 June 1998 (1997: $10 million; 1996: $Nil) of interest which has been capitalised into software developed for internal use.

Share buy-back

On 25 July 1997, the Commonwealth of Australia (Commonwealth) accepted a share buy-back offer from the Telstra Entity in respect of all of the 2,000,000,000 partly paid shares in the Telstra Entity held by the Commonwealth as at that date. The proceeds of this buy-back representing $1,500 million were applied by the Commonwealth to subscribe for 1,500,000,000 ordinary shares in the Telstra Entity with a par value of $1.00 each. As these transactions did not involve cash paid or received, they are not reflected in the cash flows from financing activities.

(iv) Financing facilities

Details of credit standby arrangements and loan facilities are included in Note 14.

(v) Acquisitions and disposals

There were no material disposals or acquisitions of businesses during the years ended 30 June 1998, 1997 and 1996.

The accompanying notes form an integral part of these financial statements.

Notes to and forming part of the Financial Statements

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the financial statements of Telstra Corporation Limited (referred to as the "Telstra Entity") and the consolidated financial statements of the economic entity (collectively referred to as "Telstra" or the "Telstra Group"), comprising the Telstra Entity, as the parent entity, and the entities it controls, are stated to assist in a general understanding of these financial statements. These accounting policies have been consistently applied by the Telstra Group and are consistent with those of the previous year, unless otherwise indicated.

1.1 Basis of Preparation

The financial statements are a general purpose financial report prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views and Australian generally accepted accounting principles.

The financial statements have been prepared on the basis of historical cost and, except for certain categories of investments and property, plant and equipment, do not take into account current valuations of non current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The carrying amounts of all non current assets are reviewed at least annually to determine whether they are in excess of their recoverable amount. In assessing the recoverable amounts the relevant cash flows have been discounted to their present value.

All amounts have been prepared and are expressed in Australian dollars unless indicated otherwise.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ from those estimates.

A reconciliation of the major differences between the accounts prepared under Australian generally accepted accounting principles and those applicable under United States generally accepted accounting principles is included at Note 32.

1.2 Principles of Consolidation

A controlled entity is one in which the Telstra Group is able to dominate decision making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in pursuing the objectives of the Telstra Group.

The consolidated financial statements of Telstra include the assets and liabilities of the Telstra Entity and the entities it controlled at the end of the financial year and the results of the Telstra Entity and the entities it controlled during the year. Where entities are not controlled throughout the year, consolidated results include the results of those entities for that part of the financial year during which control existed.

The entities controlled during the year are listed in Note 22 to the financial statements. Consolidated retained profits of Telstra include retained profits/accumulated losses in controlled entities.

The effect of all transactions and balances between entities in the Telstra Group are eliminated in full in preparing the consolidated financial statements of Telstra. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated profit and loss account and balance sheet respectively, of Telstra.

1.3 Operating Revenue

Sales revenue represents revenue earned from the sale of products and services net of returns, trade allowances, duties and taxes paid. Sales revenue is recognised or accrued at the time of the provision of the product or service.

Other revenue includes interest income, dividends and proceeds from the sale of property, plant and equipment, investments, patents, trademarks and licences and other non current assets.

1.4 Income Tax

Tax effect accounting is applied using the liability method whereby current income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. Deferred income tax assets and liabilities are provided at current rates for certain timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

1.5 Cash

Cash includes cash at bank and on hand, bank deposits, bills of exchange and promissory notes with an original maturity date not exceeding three months.

Bank deposits (including those with an original maturity in excess of three months, which are classified as receivables) are carried at amounts due and interest income is recognised on a yield to maturity basis.

Bills of exchange and promissory notes (including those with an original maturity in excess of three months, which are classified as receivables) are valued at amortised cost with interest income recognised on a yield to maturity basis.

For the purposes of the statement of cash flows, cash is shown net of outstanding bank overdrafts.

Notes to and forming part of the Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

1.6 Receivables

Trade debtors are carried at amounts due. A provision is raised for doubtful debts based on a general and specific review of outstanding amounts at balance date. Bad debts which have been specifically provided for are written off to the provision for doubtful debts; in all other cases bad debts are written off to the profit and loss account.

Employee share loans are carried at the amount advanced to each employee, less after tax dividend repayments and loan repayments. The outstanding principal on these loans is interest free. The current portion of the loan receivable is calculated using estimated loan repayments expected to be received from tax adjusted dividend payments and estimated loan repayments as a result of staff exiting the scheme (refer Note 17).

1.7 Inventories

Inventories comprise items held for resale together with material and spare parts to be used in constructing and maintaining the telecommunications network. Inventories are valued at the lower of cost and net realisable value.

Costs have been assigned to the majority of inventory items on hand at balance date using the weighted average cost basis; for the remaining quantities actual cost is used.

Current inventories comprise inventory items held for resale or items to be consumed into the telecommunications network within one year.

1.8 Construction Contracts

(a) Valuation

Construction contracts in progress are carried at cost (net of provision for foreseeable losses, if any) less progress billings where profits are yet to be recognised.

Cost includes both variable and fixed costs directly related to specific contracts, and those which can be attributed to contract activity in general and which can be allocated to specific contracts on a reasonable basis. Those costs which are expected to be incurred under penalty clauses, warranty provisions and other variances are also included. Where a material loss is indicated on completion, a provision for foreseeable losses is brought to account and applied against the gross amount of construction work in progress.

(b) Recognition of Profit

Profit is recognised on an individual project basis using the percentage of completion method. Profits are not recognised until the stage of contract completion can be reliably determined, costs to date can be clearly identified, and total contract revenues to be received and costs to complete can be reliably estimated.

(c) Disclosure

Where progress billings are in excess of construction work in progress the net amount is shown as a current liability within other creditors.

1.9 Investments

(a) Controlled Entities

Investments in controlled entities are valued in the Telstra Entity's financial statements at cost less any amount provided for permanent diminution in the value of investments. Dividends are recognised in the profit and loss account when they are declared.

(b) Associated Entities

An associated entity is one in which the Telstra Group holds an interest in the equity and over which the Telstra Group is able to exercise significant influence, but does not have control. The Telstra Entity uses the cost method of accounting whereby investments in associated entities are valued at cost less any amount provided for permanent diminution in the value of the investments. Dividends are recognised in the profit and loss account when received.

Change in Accounting Policy

Prior to 1 July 1997, the Telstra Group's investments in associated entities were accounted for under the cost method of accounting and dividends were recognised in the profit and loss account when received. In accordance with Australian Securities & Investments Commission (ASIC) Class Order 97/0798 dated 5 June 1997, the Telstra Group, on 1 July 1997, adopted the proposed revised Accounting Standard AASB 1016: Accounting for Investments in Associates. From 1 July 1997 the equity method of accounting has been applied in accounting for investments in associated entities in the consolidated accounts of Telstra only. The cost method is still applied in the Telstra Entity's accounts.

Notes to and forming part of the Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

1.9 Investments (Continued)

(b) Associated Entities (Continued)

Change in Accounting Policy (Continued)

Under the equity method of accounting, the carrying amount of the investment in associated entities is adjusted for the Telstra Group's share of the post acquisition profits or losses and reserves, less any dividends received. Where the equity accounted carrying value for an associate falls below zero, the equity method of accounting is suspended and the investment recorded at zero. If this occurs, the equity method of accounting is not resumed until such time as the Telstra Group's share of losses and reserve decrements not recognised during the financial years in which the equity method was suspended, are offset by the current share of profits and reserves. Where the equity accounted carrying value of an investment has been written down to recoverable amount, writedowns are only reversed to the extent the recoverable amount at balance date exceeds the written down carrying amount.

The initial adjustment to opening retained profits and reserves required to align the investment in associated entities with the requirements of the proposed revised Accounting Standard AASB 1016 was not material.

This change in accounting policy has resulted in an increase of $1 million (being the share of associates' profits of $14 million less $13 million recoverable amount writedown) in Telstra's consolidated operating profit after income tax for the year ended 30 June 1998, a decrease of $46 million to reserves (the majority represented by $47 million decrease in the foreign currency translation reserve), and a decrease of $53 million in Telstra's aggregate consolidated carrying amount of the investments in associates at 30 June 1998.

(c) Satellite Consortia Investments

The Telstra Entity's participation in the INTELSAT and INMARSAT satellite consortia are treated as investments. These investment holdings are in US Dollars and the balance sheet valuations are based on the Telstra Entity's share at balance date and are translated to Australian currency at the exchange rates ruling at that date and any gain or loss is taken to the profit and loss account. The principal activities of INTELSAT and INMARSAT satellite consortia investments are the provision of satellite capacity to equity members.

The Telstra Entity's ownership interest in the satellite consortia investments are as follows: INTELSAT 1.83 per cent (1997: 1.78 per cent) and INMARSAT 2.03 per cent (1997: 1.56 per cent).

(d) Other Investments

Other investments are valued at cost less any amount provided for permanent diminution in their value. Dividends and interest are recognised when received.

Net fair values of investments are determined on the following bases:

(i) Listed securities traded in an organised financial market (traded securities) are determined by the current quoted market bid price at balance date.

(ii) Investments in unlisted securities not traded in an organised financial market are carried at cost. Where the investment is carried above its recoverable amount it is written down to its recoverable amount.

(e) Investment in Partnerships

Investment in partnerships are stated at cost, adjusted by the Telstra Group's share of the partnership profit or loss. The Telstra Group's share of the partnership profit or loss is determined by multiplying the partnership profit or loss by the Telstra Group's ownership interest. Any goodwill that arises on acquisition of an interest in a partnership is amortised over the expected period of benefit, subject to a maximum period of twenty years from the date of acquisition.

1.10 Property, Plant and Equipment

(a) Acquisition and Disposal

Items of property, plant and equipment are recorded at cost and depreciated as outlined below (refer Note 1.10(c)). The cost of property, plant and equipment constructed by the Telstra Group includes the cost of material and direct labour and an appropriate proportion of fixed and variable overheads (both direct and indirect). The cost of constructed assets includes borrowing costs up to the date the asset is installed ready for use. The weighted average capitalisation rate for borrowing costs for the year ending 30 June 1998 is 8.06% (1997: 8.24%). No interest has been earned on borrowed funds and therefore no amount has been deducted in the determination of borrowing costs capitalised.

Where material, property, plant and equipment certain to be sold within twelve months is transferred to current assets at the lower of net book value and net realisable value.

Notes to and forming part of the Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

1.10 Property, Plant and Equipment (Continued)

(a) Acquisition and Disposal (Continued)

The Telstra Group participates in under sea cable joint ventures with other telecommunication companies. The Telstra Group's interest in these cables is brought to account at cost and included as "Communication assets". The cables are depreciated as outlined below (refer Note 1.10(c)). As at 30 June 1998 the value of the Telstra Group's interest in these cables was cost $749 million (1997: $786 million), less accumulated depreciation $368 million (1997: $374 million), and net book value $381 million (1997: $412 million).

(b) Revaluation

The Telstra Group has adopted a policy of obtaining valuations of all its land and buildings at least once every three years, or more frequently if deemed necessary, in accordance with normal commercial practice.

Property, plant and equipment is written down to recoverable amount where the carrying value exceeds recoverable amount.

The profit or loss on disposal of revalued assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in the profit and loss account in the year of disposal.

The effect of capital gains tax has not been taken into account in determining the revalued amounts of property, plant and equipment.

(c) Depreciation and Amortisation

Items of property, plant and equipment, including buildings and leasehold property but excluding freehold land, are depreciated/amortised on the straight line basis over their estimated service lives to the Telstra Group, as detailed below, when installed and ready for use.

	Telstra Group	
	As At 30 June	
	1998	1997
Property, Plant and Equipment	**Service Life (years)**	**Service Life (years)**
Buildings - general purpose	**55**	53
- fitout	**10 - 21**	13 - 18
Communication Assets		
Buildings - network	**55**	53
- fitout	**15 - 25**	15 - 25
Customer premises equipment	**3 - 6**	3 - 5
Transmission equipment	**6 - 16**	10 - 16
Switching equipment	**3 - 11**	4 - 11
Cables	**9 - 25**	5 - 25
Ducts and pipes - main cables	**40**	40
- distribution	**25**	25
Other communications plant	**4 - 18**	3 - 15
Other Assets		
Leasehold plant and equipment	**10**	13
Other plant, equipment and motor vehicles	**3 - 15**	4 - 13

A unit method of accounting is applied to assets, where it is practical and feasible, and in line with commercial practice. A group method of accounting is adopted for certain communication assets. Group assets are automatically written out of the books on attaining the group life, hence, any individual asset may be physically retired before or after the group life.

The service lives and residual values of all assets are reviewed annually.

Notes to and forming part of the Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

1.11 Leased Plant and Equipment

(a) Where the Telstra Group is the Lessee

Leases are accounted for in accordance with Accounting Standard, AASB 1008, "Accounting for Leases". A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property, and operating leases under which the lessor effectively retains all such risks and benefits. Where non current assets are acquired by means of finance leases, the present value of future minimum lease payments are recorded as a non current asset at the beginning of the lease term and amortised on a straight line basis over the shorter of the lease term or the expected useful life of the asset to the Telstra Group. A corresponding liability is also established and each lease payment is allocated between such liability and finance charges. Operating lease payments are charged to the profit and loss account in the periods in which they are incurred. Operating lease rental expense is disclosed in Note 3(a).

In the case of properties leased by the Telstra Group, costs of improvements are capitalised and amortised over the lower of the useful life of the property or the term of the lease.

Communication assets detailed below are subject to finance leases with third parties. The Telstra Group has full control of this equipment and the intention is that in due course the Telstra Group will gain title to this equipment. Some of this equipment has been used in the construction or upgrading of the telecommunications network and is therefore included as communication assets; the remainder is included in inventory. Both the asset and the liability for this equipment are brought to account.

	Telstra Group	
	As At 30 June	
	1998 $m	1997 $m
Equipment	408	408
Accumulated depreciation	(271)	(218)
	137	190

(b) Where the Telstra Group is the Lessor

Plant and equipment under short-term operating leases is included in property, plant and equipment in the balance sheet. Rental income is brought to account in the period in which it is earned.

1.12 Intangible Assets

(a) Goodwill

Goodwill, representing the excess of the cost of equity in controlled entities over the fair value of the identifiable net assets of the controlled entities at the dates of gaining control, is shown as an intangible asset. Goodwill is amortised on a straight line basis over the period of expected benefit, subject to a maximum of twenty years from the date of gaining control. The carrying value of goodwill is reviewed annually and adjusted to the extent that future benefits are not considered probable.

(b) Patents, Trademarks and Licences

Costs associated with patents, trademarks and licences (which mainly comprise licences to use network and business software and spectrum licences) having a benefit or relationship to more than one accounting period are deferred and amortised on a straight line basis over the periods of their expected benefit. The recoverability of patents, trademarks and licences is reviewed annually and adjusted where considered necessary.

1.13 Other Assets

(a) Research and Development Costs

Research and development costs are charged to expense as incurred.

(b) Deferred Expenditure

Deferred expenditure primarily includes upfront payments for usage of international cable systems and loan flotation costs.

Material items of expenditure are deferred to the extent that they are recoverable from future revenue, do not relate solely to revenue which has already been brought to account, and will contribute to the future earning capacity of the Telstra Group.

Deferred expenditures are amortised over the average period in which the related benefits are expected to be realised. Expenditure deferred in previous periods is reviewed annually to determine the amount (if any) that is no longer recoverable and all such amounts are written off.

Notes to and forming part of the Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

1.13 Other Assets (Continued)

(c) Software Developed for Internal Use

The Telstra Group capitalises direct costs associated with the development of network and business software for internal use where project success is regarded as probable. Capitalised costs include external direct costs of materials and services consumed, payroll and direct payroll-related costs for employees (including contractors) directly associated with the project and borrowing costs incurred while developing the software. Software developed for internal use is amortised on a systematic basis over their useful life (generally five years) to the Telstra Group and amortisation commences once the software is ready for use.

1.14 Accounts Payable

Accounts payable, including accruals, are recognised when the Telstra Group becomes obliged to make future payments as a result of a purchase of assets or services. Accounts payable are carried at amounts due.

1.15 Superannuation

The Telstra Group participates in a number of employee superannuation schemes which exist to provide benefits for employees and their dependants upon cessation of employment. For funding purposes actuarial valuations are required to be carried out no less frequently than every three years, for defined benefit funds. The Telstra Group's commitment in respect of accumulation type benefits is limited to making the contributions specified in the trust deed. Contributions to employee superannuation schemes are charged as an expense as the contributions become payable.

In relation to the defined benefit superannuation schemes in which the Telstra Group participates, where in the past there has been a shortfall in the net market value of scheme assets when compared to members' vested entitlements, the Telstra Group has provided for the present value of the shortfall, to the extent that a present obligation exists to rectify the financial position of the schemes.

1.16 Borrowings

Bills of exchange and promissory notes are recognised when issued at the amount of the net proceeds received and carried at amortised cost until the liabilities are fully settled. Interest on the instruments is recognised as an expense on a yield to maturity basis.

Telecom/Telstra bonds are carried at cost or adjusted cost (face value of debt adjusted for any unamortised premium or discount). Interest is calculated on a yield to maturity basis. Bonds repurchased are cancelled against the original liability and any gains or losses are taken to the profit and loss account as interest expense.

Bank loans are carried at cost.

Other loans are carried at cost, or adjusted cost. Discounts and premiums are amortised on a straight line basis over the period to maturity. Interest is calculated on a yield to maturity basis. Amounts denominated in foreign currency are revalued daily. Any exchange gains or losses are taken to the profit and loss account.

Net fair values of fixed rate loans and bonds issued are determined by current risk adjusted market rates.

1.17 Foreign Currency

(a) Transactions

Transactions denominated in foreign currency are translated into Australian currency at the exchange rates applicable at the date of the transactions. Amounts payable or receivable in foreign currencies at balance date are converted into Australian currency at the rates of exchange ruling at balance date. Exchange gains and losses are brought to account in determining the profit or loss for the year.

Exchange gains and losses and hedging costs arising on forward foreign currency contracts entered into as hedges of specific commitments, or in the construction of qualifying assets, are deferred and included in the determination of the amounts at which the transactions are brought to account. All exchange gains and losses relating to other hedge transactions are brought to account in the profit and loss account in the same period as the exchange differences on the items covered by the hedge transactions. Costs on such contracts are amortised over the life of the hedge contract.

Premiums and discounts on forward exchange contracts arising at the time of entering into the hedge are amortised over the life of the forward exchange contract and included in interest expense.

Notes to and forming part of the Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

1.17 Foreign Currency (Continued)

(b) Translation of Foreign Entities' Financial Statements

Integrated foreign operations

Where a foreign operation is financially and operationally inter-dependent, either directly or indirectly, with the Telstra Group and whose day-to-day operations normally expose the Telstra Group to foreign exchange gains or losses, the foreign operation's financial statements are translated using the temporal method. Under this method, monetary balance sheet items are translated into Australian currency at the rates of exchange ruling at balance date and non monetary balance sheet items (including owner's equity at the date of investment) are translated at exchange rates current at transaction dates (or at the date of revaluation). The profit and loss accounts are translated into Australian currency at weighted average rates of exchange for the period. Exchange gains and losses arising on translation are taken directly to the profit and loss account.

Self sustaining foreign operations

Where a foreign operation is not an integrated foreign operation and is independent, financially and operationally, of the Telstra Group and whose operations do not normally expose the Telstra Group to foreign exchange gains or losses, the foreign operation's financial statements are translated using the current rate method. Under this method, the balance sheets are translated into Australian currency at the rates of exchange ruling at balance date and the profit and loss accounts are translated into Australian currency at weighted average rates of exchange for the period. Exchange gains and losses arising on translation are taken directly to the foreign currency translation reserve.

1.18 Derivatives

Derivative financial instruments, principally interest rate swaps, cross currency swaps, futures contracts and forward foreign exchange contracts, are entered into to manage financial risks. All derivative transactions are undertaken to hedge an underlying physical position.

Gains and losses on derivatives are accounted for on the same basis as the underlying physical exposures. Accordingly, hedge gains and losses are included in the profit and loss account when the gains or losses arising on the related physical exposures are recognised in the profit and loss account.

The foreign exchange gains and losses on the principal value of the cross currency swaps are reflected in the profit and loss account using the spot rate which offsets the foreign exchange gains and losses recorded on the underlying hedged transaction.

The Telstra Group accounts for its interest rate swaps and cross currency swaps that hedge an underlying physical exposure using the accrual method of accounting. Interest receivable and payable under the terms of the interest rate swaps and cross currency swaps are accrued over the period to which the payments or receipts relate, and are treated as an adjustment to interest expense. Changes to the underlying market value of the remaining interest rate swap and cross currency swap payments and receipts are not recognised.

Gains and losses on futures contracts are deferred and amortised over the life of the underlying hedged asset or liability.

Forward foreign exchange contracts are accounted for as outlined in Note 1.17(a).

Gains and losses on forward foreign exchange contracts intended to hedge anticipated future transactions are deferred to be recognised when the anticipated future transaction occurs.

Net fair values of interest rate swaps, cross currency swaps and forward exchange contracts are determined at prices based on amounts quoted on Reuters to close out existing contracts (both favourable and unfavourable). Net fair value of interest rate futures is determined at a price equating to the mid point between the last bid and the last offer price quoted on the Sydney Futures Exchange at balance date.

1.19 Provisions

(a) Employee Entitlements

Liabilities for employee entitlements to wages and salaries, annual leave and other current employee entitlements are accrued at nominal amounts calculated on the basis of current wage and salary rates, including related on costs.

Telstra Entity employees who have been employed by the Telstra Entity for at least ten years are entitled to an extended leave of absence of three months (or more depending on the actual length of employment). This leave of absence is called long service leave and is included in other employee entitlements. Employees of controlled entities of the Telstra Group are subject to similar benefits.

Liabilities for other employee entitlements, which are not expected to be paid or settled within twelve months of balance date, are accrued in respect of all employees at the present values of future amounts expected to be paid based on projected increases in wage and salary rates over an average of ten years. Present values are calculated using appropriate rates based on government guaranteed securities with similar maturity terms.

Notes to and forming part of the Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

1.19 Provisions (Continued)

(b) Workers' Compensation

The Telstra Entity is self insured in respect of workers' compensation liabilities. Provision is made for the present value of these estimated liabilities based on an actuarial review of the liability including actual accidents and an estimate of incurred but not reported claims. Present values are calculated using appropriate rates based on government guaranteed securities with similar maturity terms. The majority of controlled entities of the Telstra Group do not self insure but pay annual premiums to third party insurance companies for their workers' compensation liabilities.

1.20 Revenue Received in Advance

Revenue received in advance principally consists of revenue from White Pages™, royalty revenue from Yellow Pages® directory advertising, and telephone rental. Royalty revenue from directory advertising is recognised at the time the directories are issued. Commission earned on the sale of directory advertising space is recognised at the point of sale. Revenue from telephone rental is recognised over the rental period.

1.21 Insurance

The Telstra Group specifically carries Property, Fidelity (Crime), General Liability, Travel/Personal Accident, General Third Party and Director and Officers' and Company reimbursement insurance. The Telstra Group carries other insurance from time to time.

With the exception of workers' compensation for the Telstra Entity, any losses are charged to the profit and loss account in the year which the loss is reported, for those risks where the Telstra Group has no insurance.

1.22 Rounding

The Telstra Entity is a company of the kind referred to in ASIC Class Order 97/1005, dated 9 July 1997, issued under Section 313(6) of the Corporations Law. All amounts in the financial statements (except where indicated) have been rounded off to the nearest million dollars ($m) in accordance with that Class Order.

1.23 United States Currency Conversions

Translation of amounts from Australian currency into United States currency has been made to Telstra's Consolidated Profit and Loss Account, Balance Sheet, Statement of Cash Flows and United States Generally Accepted Accounting Principles Disclosures for the year ended 30 June 1998, for the convenience of readers outside Australia. These conversions appear under columns headed US $m and represent rounded millions of US dollars. The translation has been performed at the noon buying rate in New York City for cable transfers in foreign currencies, as certified for custom purposes by the Federal Reserve Bank of New York on Tuesday 30 June 1998 of A$1.00 = US$0.6208. Such translation should not be construed as representation that the Australian dollar amounts represent such US$ or could be converted into US$ at the rate indicated.

1.24 Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Notes to and forming part of the Financial Statements (Continued)

	Note	Telstra Group Year Ended 30 June 1998 $m	1997 $m	1996 $m	Telstra Entity Year Ended 30 June 1998 $m	1997 $m
2. Other Revenue						
Dividends received/receivable from:						
- controlled entities	29	**-**	-	-	**39**	7
- other entities		**20**	38	33	**20**	37
Interest received/receivable from:						
- controlled entities	29	**-**	-	-	**6**	5
- other entities		**49**	85	105	**43**	79
Proceeds from the sale of:						
- property, plant and equipment		**255**	176	73	**333**	652
- investments		**-**	26	126	**-**	26
- patents, trademarks and licences		**11**	-	-	**-**	-
Share of associated entities net profit after income tax expense	23(i)	**14**	-	-	**-**	-
Other revenue		**134**	222	186	**130**	215
		483	547	523	**571**	1,021

Notes to and forming part of the Financial Statements (Continued)

	Note	Telstra Group Year Ended 30 June 1998 $m	1997 $m	1996 $m	Telstra Entity Year Ended 30 June 1998 $m	1997 $m
3. Operating Profit						
(a) Operating profit before income tax has been determined after charging/(crediting) the following:						
Depreciation and amortisation						
Depreciation of:						
- general purpose buildings		**45**	52	55	**45**	52
- communication assets (i)		**1,802**	1,847	1,848	**1,718**	1,757
- other plant, equipment and motor vehicles		**316**	372	375	**300**	357
		2,163	2,271	2,278	**2,063**	2,166
Amortisation of:						
- assets under finance lease		**25**	33	26	**24**	33
- patents, trademarks and licences		**25**	22	26	**22**	22
- goodwill		**11**	5	1	**-**	2
- leasehold improvements		**28**	14	9	**27**	13
- research and development		**-**	-	1	**-**	-
- deferred expenditure		**7**	8	10	**7**	8
- capitalised software		**63**	-	-	**63**	-
		159	82	73	**143**	78
		2,322	2,353	2,351	**2,206**	2,244
(i) Depreciation of communication assets for the year ended 30 June 1996 is before the abnormal item (refer Note 3(b)).						
Other operating expenses						
Rental expense on operating leases		**216**	212	243	**205**	211
Partnership losses		**83**	106	81	**-**	-
Writedown of property, plant and equipment		**16**	-	-	**16**	-
Bad debts written off - trade debtors		**175**	149	63	**151**	149
Provisions:						
- doubtful debts - trade debtors		**182**	160	85	**173**	160
- diminution in value of inventories (finished goods)		**(15)**	8	(9)	**(15)**	8
- diminution in value of investments		**34**	8	14	**514**	104
- other provisions		**21**	2	-	**-**	5
Foreign exchange (gains)/losses		**(9)**	5	(1)	**18**	15
Other operating expenses		**2,928**	2,645	2,892	**2,867**	3,063
		3,631	3,295	3,368	**3,929**	3,715
Borrowing costs						
- controlled entities	29	**-**	-	-	**9**	7
- other entities		**701**	504	511	**668**	502
- finance charges relating to finance leases		**16**	20	22	**9**	11
		717	524	533	**686**	520
- borrowing costs capitalised		**(83)**	-	-	**(82)**	-
		634	524	533	**604**	520
Other disclosures						
Research and development expenses (before crediting any grants)		**43**	58	86	**42**	56
Provisions:						
- employee entitlements		**116**	(22)	125	**116**	(28)
- workers' compensation		**68**	44	(25)	**68**	44
Net (profit)/loss on sale of:						
- property, plant and equipment		**58**	39	43	**62**	40
- investments		**-**	(23)	(52)	**-**	(23)
- patents, trademarks and licences		**(11)**	-	-	**-**	-

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group			Telstra Entity	
	Year Ended 30 June			Year Ended 30 June	
	1998 $m	1997 $m	1996 $m	**1998 $m**	1997 $m
3. Operating Profit (Continued)					
(b) Abnormals					
Operating profit before income tax expense has been determined after charging/(crediting) the following abnormals:					
Abnormal items:					
Provision for redundancy and restructuring (i)	-	1,126	-	-	1,126
Income tax (benefit) applicable thereto	-	(405)	-	-	(405)
	-	721	-	-	721
Provision for loss on long term construction contract (ii)	-	394	-	-	394
Income tax (benefit) applicable thereto	-	(142)	-	-	(142)
	-	252	-	-	252
Writedown of broadband network communication assets (iii)	-	342	-	-	-
Income tax (benefit) applicable thereto	-	(123)	-	-	-
	-	219	-	-	-
Provision for broadband network rationalisation (iv)	-	476	-	-	-
Income tax (benefit) applicable thereto	-	(113)	-	-	-
	-	363	-	-	-
Provision for diminution in value of investment (v)	-	-	-	-	1,014
Income tax expense/(benefit) applicable thereto	-	-	-	-	-
	-	-	-	-	1,014
Change in communication assets depreciation methodology (vi)	-	-	(205)	-	-
Income tax expense applicable thereto	-	-	74	-	-
	-	-	(131)	-	-
Total abnormal items before income tax expense	-	2,338	(205)	-	2,534
Income tax expense/(benefit) applicable thereto	-	(783)	74	-	(547)
Total abnormal items after income tax	-	1,555	(131)	-	1,987
Abnormal accounting policy changes:					
Capitalisation of indirect overheads (vii)	-	(287)	-	-	(287)
Capitalisation of software developed for internal use (viii)	-	(213)	-	-	(213)
Capitalisation of interest costs (ix)	-	(106)	-	-	(102)
	-	(606)	-	-	(602)
Income tax expense applicable thereto	-	218	-	-	217
	-	(388)	-	-	(385)
Total abnormals before income tax expense	-	1,732	(205)	-	1,932
Income tax expense/(benefit) applicable thereto	-	(565)	74	-	(330)
Total abnormals after income tax	-	1,167	(131)	-	1,602

Notes to and forming part of the Financial Statements (Continued)

3. Operating Profit (Continued)

(b) Abnormals (Continued)

Abnormal items:

(i) During the year ended 30 June 1997, the Telstra Entity raised a provision in the accounts of $1,126 million which represented the estimated redundancy payments and associated costs to be incurred as a result of the implementation of the corporate plan, which provided for a large reduction in staff by way of redundancy.

(ii) During the year ended 30 June 1997, as part of an ongoing review of the Jindalee Operational Radar Network Project, a reassessment of costs to complete, and the estimated percentage of completion of this project at 30 June 1997, was made. As a result of this, the Telstra Entity recognised an abnormal charge in the financial statements of $394 million which represented the additional future costs that will not be recovered from the project.

(iii) During the year ended 30 June 1997, assets relating to the Telstra Group's broadband network were written down by $587 million, of which $245 million was charged to the asset revaluation reserve and the balance of $342 million was included as an abnormal charge to operating profit. The writedown to the broadband network's recoverable amount of $210 million was based on the present value of the estimated future net cash flows before income tax and excluded significant recent pit and pipe capital expenditures which are considered to be shared assets predominantly used for narrowband services.

(iv) During the year ended 30 June 1997, the Telstra Group recorded an abnormal charge of $476 million as a result of an agreement to reduce the rollout of the Telstra Group's broadband network to 2.5 million homes passed from 4.0 million homes passed. The charge was based on estimated contract settlements of $390 million as a result of the rollout reduction and a writedown of excess inventory of $86 million. The provision for broadband network rationalisation includes an amount of $300 million which represents the net present value of a contractual obligation for fixed-dollar amount reductions in revenue share to be received by the Telstra Group from FOXTEL over the next five years (or seven years if the acquisition of FOXTEL by Australis is not completed) using a discount rate of 9.7%. In the event that there is insufficient revenue share in a given year to meet the amount of the reduction, the Telstra Group will fund the difference to FOXTEL.

(v) During the year ended 30 June 1997, as part of the Telstra Entity's review of its investment in the broadband network and the writedowns of broadband assets and provisions made as noted above in (iii) and (iv), the Telstra Entity raised a $1,014 million provision for diminution in the value of its investment in Telstra Multimedia Pty Ltd.

(vi) During the year ended 30 June 1996 the Telstra Entity changed the methodology for determining the service life (but not the method of depreciation used, being the straight line basis) of particular communication assets (primarily switching and copper cable assets) to take into account the technological life of the assets to the Telstra Entity, where the principal driver of the service life is the advancement of technology and technological replacement, rather than physical wear and tear, commercial, legal and regulatory issues. The new methodology is only applied where a new technology is known to exist and the Telstra Entity is likely to utilise the new technology, with this utilisation decision having been made through a senior management review of the technological direction of the Telstra Entity. Previously the service life of these assets was determined by reference to the physical life of the asset from the date the asset is installed ready for use. The effect of this prospective change in the service life methodology on depreciation expense for the year ended 30 June 1996, being a depreciation reduction of $205 million, was disclosed as an abnormal gain in the profit and loss account.

Abnormal accounting policy changes:

(vii) During the year ended 30 June 1997, the Telstra Group changed its accounting policy in relation to the capitalisation of indirect overheads which was applied retrospectively from 1 July 1996. The effect of this change was to increase the operating profit before income tax by $287 million.

(viii) During the year ended 30 June 1997, the Telstra Group changed its accounting policy in relation to the capitalisation of software developed for internal use which was applied retrospectively from 1 July 1996. The effect of this change was to increase the operating profit before income tax by $213 million.

(ix) During the year ended 30 June 1997, the Telstra Group changed its accounting policy in relation to the capitalisation of interest costs which was applied retrospectively from 1 July 1996. The effect of this change was to increase operating profit before tax by $106 million ($102 million increase for the Telstra Entity).

Notes to and forming part of the Financial Statements (Continued)

3. Operating Profit (Continued)

(c) Abnormal income tax credit

	Telstra Group Year Ended 30 June			Telstra Entity Year Ended 30 June	
	1998 $m	1997 $m	1996 $m	**1998 $m**	1997 $m
Income tax expense has been determined after crediting the following abnormal item:					
Abnormal income tax credit (i)	**-**	(216)	-	**-**	(216)

(i) During the year ended 30 June 1997, income tax expense included an abnormal income tax benefit of $216 million relating to depreciation of assets that were subject to downward revaluations in prior years.

4. Income Tax Expense

The income tax expense on operating profit is reconciled to the reported income tax expense as follows:

Operating profit before income tax	**4,468**	2,073	3,447	**4,566**	2,361
Statutory rate of taxation	**36%**	36%	36%	**36%**	36%
Income tax on operating profit before tax at 36%	**1,608**	746	1,241	**1,644**	850
Which is adjusted by the tax effect of:					
Research and development concessions	**(18)**	(21)	(23)	**(6)**	(7)
General investment/development allowance	**(11)**	-	(5)	**(11)**	-
Share of associated entities' net profit after income tax expense	**(5)**	-	-	**-**	-
Profit on sale of property, plant and equipment	**(3)**	-	-	**(1)**	-
Depreciation of revalued assets	**(39)**	(62)	9	**(30)**	(62)
Inventory adjustments	**2**	15	15	**-**	15
Diminution in the value of investments	**12**	42	(5)	**184**	517
Rebateable dividends	**-**	(13)	(8)	**(11)**	(12)
Transfer of tax losses for no consideration	**-**	-	-	**-**	(40)
Provision for broadband network rationalisation	**-**	58	-	**-**	-
Over provision in prior years (i)	**(113)**	(66)	(87)	**(104)**	(71)
Other	**35**	(19)	8	**58**	(26)
Income tax attributable to operating profit	**1,468**	680	1,145	**1,723**	1,164
Abnormal income tax credit (Note 3(c))	**-**	(216)	-	**-**	(216)
Income tax expense	**1,468**	464	1,145	**1,723**	948
Comprising:					
Current taxation provision	**1,058**	1,056	1,032	**1,008**	1,026
Movement in future income tax benefit	**524**	(522)	196	**819**	(7)
Movement in deferred income tax liability	**(1)**	(4)	4	**-**	-
Over provision in prior years (i)	**(113)**	(66)	(87)	**(104)**	(71)
	1,468	464	1,145	**1,723**	948

(i) Included in overprovision in prior years is tax refunds from the Australian Taxation Office of $103 million (1997: $69 million; 1996: $113 million) for the Telstra Group and $99 million (1997: $69 million; 1996: $113 million) for the Telstra Entity.

Notes to and forming part of the Financial Statements (Continued)

4. Income Tax Expense (Continued)

	Telstra Group As At 30 June			Telstra Entity As At 30 June	
	1998 $m	1997 $m	1996 $m	**1998 $m**	1997 $m
Future income tax benefit as at 30 June not brought to account:					
Income tax losses	**20**	1	5	**-**	-
Capital losses	**28**	7	19	**5**	-
	48	8	24	**5**	-

This benefit for tax losses which can be carried forward indefinitely will only be obtained if:

(i) the controlled entity derives future assessable income of an amount sufficient to enable the benefit from the deductions for the loss to be realised or the loss is transferred to an eligible company in the Telstra Group;

(ii) the controlled entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) no changes in tax legislation adversely affect the Telstra Group in realising the benefit from the deductions for the losses.

The Telstra Group's future income tax benefit (recorded on the balance sheet) of $787 million (1997: $1,485 million; 1996: $1,181 million) includes $133 million (1997: $3 million; 1996: $9 million) in relation to the benefit of income tax losses carried forward.

5. Dividends

	Telstra Group Year Ended 30 June			Telstra Entity Year Ended 30 June	
	1998 $m	1997 $m	1996 $m	**1998 $m**	1997 $m
Ordinary shares:					
Interim dividend paid	**901**	3,625	686	**901**	3,625
Final dividend provided/paid	**901**	521	682	**901**	521
	1,802	4,146	1,368	**1,802**	4,146
Dividends per share (cents)	**¢**	¢	¢		
Interim	**7.0**	* 28.2	* 5.3		
Final	**7.0**	* 4.0	* 5.3		
Total	**14.0**	* 32.2	* 10.6		

* Calculated assuming share split had been made in these years. Refer to Note 16(ii) for further details of the share split.

During the year ended 30 June 1998, the Telstra Entity declared and paid dividends of $1,422 million (1998 interim dividend plus 1997 final dividend paid during the year ended 30 June 1998) (1997: $4,307 million of which $3,000 million was paid as a special dividend to the Commonwealth; 1996: $1,217 million).

All dividends paid or provided for were fully franked "C" class dividends for the years ended 30 June 1998, 1997 and 1996 and the tax rate at which these dividends were franked was 36%. Franking credits arise under Australian Taxation Law. Generally, they allow Australian resident taxpayers a credit for the income tax paid by the Telstra Entity against tax payable by the shareholder calculated on the grossed up amount of franked dividends received by the shareholder. Dividends paid to non-resident shareholders will not be subject to dividend withholding tax on the basis that the dividends are fully franked.

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group			Telstra Entity	
	Year Ended 30 June			Year Ended 30 June	
	1998	1997	1996	**1998**	1997
	$m	$m	$m	**$m**	$m
5. Dividends (Continued)					
The amount of franking credits available for the subsequent financial year are:					
- franking account balance as at the end of the financial year.	**479**	563	3,061	**315**	442
- franking credits that will arise from the net payment of income tax payable as at the end of the financial year	**769**	768	1,225	**758**	713
- franking debits that will arise from the payment of dividends as at the end of the financial year	**(901)**	(521)	(682)	**(901)**	(521)
- franking credits that the entity may be prevented from distributing in the next financial year	**(8)**	-	-	**-**	-
	339	810	3,604	**172**	634

As at 30 June 1998, the Telstra Entity is entitled to use these franking credits to frank dividends for the next financial year. On 13 May 1997, the Commonwealth Treasurer announced changes to income tax laws dealing with the franking of dividends. If they are enacted, the franking credits of the Telstra Entity of 13 May 1997 will be cancelled and an equivalent amount of exempting credits will be created.

Arrangements have been put in place between the Commonwealth and the Telstra Entity in relation to the use of exempting credits in lieu of equivalent franking credits.

	Telstra Group		Telstra Entity	
	As At 30 June		As At 30 June	
	1998	1997	**1998**	1997
	$m	$m	**$m**	$m
6. Cash				
Cash at bank and on hand.	**154**	154	**74**	86
Bank deposits, bills of exchange and promissory notes.	**799**	588	**798**	588
	953	742	**872**	674

Bank deposits are held in the short term money market. The carrying amount of bank deposits, bills of exchange and promissory notes approximate net fair value due to their short term to maturity.

Notes to and forming part of the Financial Statements (Continued)

	Note	Telstra Group As At 30 June 1998 $m	Telstra Group As At 30 June 1997 $m	Telstra Entity As At 30 June 1998 $m	Telstra Entity As At 30 June 1997 $m
7. Receivables					
Current					
Trade debtors (i)		**2,284**	2,450	**1,709**	2,219
Provision for doubtful debts		**(237)**	(315)	**(211)**	(293)
		2,047	2,135	**1,498**	1,926
Accrued revenue		**998**	1,103	**958**	1,045
Bank deposits, bills of exchange and promissory notes (ii)		**19**	95	**19**	95
Share loans to employees (iii)	17	**46**	-	**46**	-
Amounts owed by controlled entities (other than trade debtors)	29	**-**	-	**676**	847
Loans to associated entities		**5**	-	**5**	-
Other receivables		**63**	53	**34**	36
		3,178	3,386	**3,236**	3,949
Non Current					
Bank deposits and bills of exchange (ii)		**71**	98	**42**	69
Share loans to employees (iii)	17	**160**	-	**160**	-
Amounts owed by controlled entities (other than trade debtors)	29	**-**	-	**126**	98
Other receivables		**10**	10	**-**	-
		241	108	**328**	167

(i) The Telstra Group's policy requires trade debtors to be settled within 14 days. The Telstra Group does not have any significant exposure to any individual customer, geographical location or industry category. All credit and recovery risk associated with trade debtors has been provided for in the financial statements. The carrying amount of trade debtors approximates their net fair value.

(ii) Bank deposits, bills of exchange and promissory notes as at 30 June 1998 represent Japanese Yen deposits in relation to the Telstra Group's Japanese finance lease liabilities. These deposits can only be used to satisfy these finance lease liabilities. The carrying amount of bank deposits, bills of exchange and promissory notes with an original maturity date over three months and less than one year and the non current amounts approximates net fair value.

(iii) Share loans to employees represent amounts receivable from employees under the terms of the Telstra Employee Share Ownership Plan Trust and Loan Scheme and approximate fair value. Refer to Note 17 for details regarding the scheme.

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group As At 30 June		Telstra Entity As At 30 June	
	1998 $m	1997 $m	**1998 $m**	1997 $m
8. Inventories				
Current				
Raw materials and stores (at cost)	**23**	26	**23**	25
Work in progress (at cost)	**1**	2	**1**	1
Finished goods (at cost)	**268**	275	**263**	270
Provision for obsolescence	**(49)**	(66)	**(48)**	(65)
	219	209	**215**	205
	243	237	**239**	231
Non Current				
Finished goods (at cost)	**41**	48	**41**	46
Provision for obsolescence	**(14)**	(12)	**(14)**	(12)
	27	36	**27**	34
9. Investments				
Listed securities				
Shares in other corporations (at cost)	**2**	38	**-**	36
Provision for diminution in value	**-**	(33)	**-**	(33)
Total listed securities (a)	**2**	5	**-**	3
(a) Net fair value at 30 June	**6**	5	**-**	3
Unlisted securities				
Shares in controlled entities (at cost) (Note 22)	**-**	-	**2,157**	1,723
Provision for diminution in value	**-**	-	**(1,897)**	(1,409)
	-	-	**260**	314
Shares in associated entities (Note 23(i)) (i) (ii)	**6**	59	**-**	-
Shares in other corporations (at cost) (i)	**51**	15	**50**	14
Provision for diminution in value (i)	**(39)**	(3)	**(39)**	(3)
	12	12	**11**	11
Satellite consortia investments (i) (iii)				
INTELSAT	**75**	54	**75**	54
INMARSAT	**29**	21	**29**	21
	104	75	**104**	75
Debentures (i)	**18**	-	**18**	-
Provision for diminution in value (i)	**(18)**	-	**(18)**	-
	-	-	**-**	-
Total unlisted securities	**122**	146	**375**	400
Investment in unincorporated joint venture (i)	**6**	6	**6**	6
Investment in partnerships (i) (Note 23(ii))	**98**	56	**-**	-
	228	213	**381**	409

Notes to and forming part of the Financial Statements (Continued)

9. Investments (Continued)

(i) The net fair value of unlisted securities (other than shares in controlled entities), investment in unincorporated joint venture, and investment in partnerships approximates their carrying value.

(ii) The Telstra Group amount for 30 June 1998 is equity accounted. The Telstra Group amount for 30 June 1997 is at cost. The Telstra Entity amounts for both years are at cost. Refer Note 1.9(b) for details of the change in the Telstra Group's accounting policy.

(iii) The satellite consortia investments are translated at balance date as outlined in Note 1.9(c).

	Telstra Group As At 30 June		Telstra Entity As At 30 June	
	1998 $m	1997 $m	**1998 $m**	1997 $m
10. Property, Plant and Equipment				
General Purpose Land and Buildings				
Land and Site Improvements				
At cost	**4**	9	**4**	9
At Directors' valuation - 31 March 1996 (i)	**191**	204	**191**	204
At Directors' valuation - 31 March 1998 (i)	**23**	-	**23**	-
	218	213	**218**	213
Buildings (including leasehold improvements)				
At cost	**438**	419	**427**	404
Accumulated depreciation	**(166)**	(130)	**(161)**	(124)
	272	289	**266**	280
At Directors' valuation - 31 March 1996 (i)	**695**	734	**695**	734
At Directors' valuation - 31 March 1998 (i)	**22**	-	**22**	-
	717	734	**717**	734
Accumulated depreciation	**(62)**	(39)	**(62)**	(39)
	655	695	**655**	695
	927	984	**921**	975
	1,145	1,197	**1,139**	1,188
Communication Assets (including leasehold improvements)				
At cost	**25,577**	22,966	**25,130**	22,640
Accumulated depreciation	**(10,500)**	(9,327)	**(10,331)**	(9,216)
	15,077	13,639	**14,799**	13,424
At Independent valuation - 1988 (ii)	**228**	254	**228**	254
At Directors' valuation:				
- 31 January 1992 (ii)	**908**	908	**908**	908
- 30 June 1992 (ii)	**706**	762	**706**	762
- 31 March 1994 (ii)	**1,087**	1,205	**1,087**	1,205
- 30 June 1995 (ii)	**3**	4	**3**	4
- 30 June 1997 (ii)	**210**	210	**-**	-
- 31 March 1998 (ii)	**5**	-	**5**	-
	3,147	3,343	**2,937**	3,133
Accumulated depreciation	**(890)**	(899)	**(869)**	(899)
	2,257	2,444	**2,068**	2,234
	17,334	16,083	**16,867**	15,658

Communication assets include certain network land and buildings which are integral to the communication assets.

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group As At 30 June		Telstra Entity As At 30 June	
	1998 $m	1997 $m	**1998 $m**	1997 $m
10. Property, Plant and Equipment (Continued)				
Other Plant and Equipment				
Other Plant, Equipment and Motor Vehicles				
At cost	**2,703**	3,410	**2,627**	3,320
Accumulated depreciation	**(1,460)**	(1,807)	**(1,415)**	(1,765)
	1,243	1,603	**1,212**	1,555
At Independent valuation 1988 (ii)	**3**	3	**3**	3
Accumulated depreciation	**(3)**	(3)	**(3)**	(3)
	-	-	**-**	-
	1,243	1,603	**1,212**	1,555
Equipment Under Finance Lease				
At cost	**108**	148	**107**	147
Accumulated amortisation	**(74)**	(88)	**(74)**	(87)
	34	60	**33**	60
Net Book Value of Property, Plant and Equipment	**19,756**	18,943	**19,251**	18,461
Assets under construction included in the above at cost:				
Communication assets	**847**	750	**841**	746
General purpose land and buildings	**13**	35	**13**	35
	860	785	**854**	781
As at 30 June 1998 and 1997, the cost/valuation and accumulated depreciation of all land and buildings was:				
Land				
At cost	**46**	14	**46**	14
At valuation (i) (ii)	**695**	700	**695**	700
	741	714	**741**	714
Buildings (including leasehold improvements)				
At cost	**1,198**	862	**1,163**	844
Accumulated depreciation	**(354)**	(202)	**(338)**	(194)
	844	660	**825**	650
At valuation (i) (ii)	**1,979**	1,998	**1,979**	1,998
Accumulated depreciation	**(338)**	(261)	**(338)**	(261)
	1,641	1,737	**1,641**	1,737
	2,485	2,397	**2,466**	2,387
	3,226	3,111	**3,207**	3,101

The Directors consider the current value of all land and buildings as at 30 June 1998 was $3,568 million (1997: $3,216 million); Telstra Entity $3,549 million (1997: $3,206 million).

From time to time the Telstra Group has revalued its property, plant and equipment. Property, plant and equipment is written down to recoverable amount where the carrying value exceeds recoverable amount.

Notes to and forming part of the Financial Statements (Continued)

10. Property, Plant and Equipment (Continued)

The valuation methods are as follows:

(i) General purpose land and buildings
- Market value.

(ii) Communication assets and other plant and equipment
(a) Network land and buildings
- Market value for network land and depreciated replacement cost or recoverable amount for network buildings.

(b) Other assets
- Depreciated replacement cost or recoverable amount.

Details of the Telstra Group's capital expenditure and finance lease commitments are provided in Note 19 to these financial statements.

	Telstra Group As At 30 June		Telstra Entity As At 30 June	
	1998 $m	1997 $m	**1998 $m**	1997 $m
11. Intangible Assets				
Goodwill	**51**	27	**-**	-
Accumulated amortisation	**(13)**	(8)	**-**	-
	38	19	**-**	-
Patents, trademarks and licences	**529**	256	**522**	238
Accumulated amortisation	**(71)**	(51)	**(67)**	(38)
	458	205	**455**	200
	496	224	**455**	200
12. Other Assets				
Current				
Prepayments	**136**	158	**129**	146
Land and buildings held for sale	**-**	34	**-**	34
	136	192	**129**	180
Non Current				
Deferred expenditure	**95**	117	**94**	116
Accumulated amortisation	**(61)**	(48)	**(61)**	(48)
	34	69	**33**	68
Capitalised software	**479**	248	**479**	248
Accumulated amortisation	**(88)**	(25)	**(88)**	(25)
	391	223	**391**	223
	425	292	**424**	291

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group As At 30 June		Telstra Entity As At 30 June	
	1998 $m	1997 $m	**1998 $m**	1997 $m
13. Accounts Payable				
Current				
Trade creditors (i)	**576**	472	**498**	416
Accrued expenses	**994**	1,153	**868**	1,084
Other creditors (i) (ii)	**794**	919	**729**	861
Amounts owed to controlled entities (other than trade creditors)	**-**	-	**173**	767
Amounts owed to the Telstra Superannuation Scheme (iii)	**121**	121	**121**	121
	2,485	2,665	**2,389**	3,249
Non Current				
Other creditors	**36**	21	**21**	16
Amounts owed to controlled entities (other than trade creditors)	**-**	-	**159**	58
Amounts owed to the Telstra Superannuation Scheme (iii)	**664**	689	**664**	689
	700	710	**844**	763

(i) Trade creditors and other creditors (excluding a long term construction contract) are generally settled within 30 days of the date of invoice for electronic funds transfer payments, or 30 days from the end of the month of invoice for other payments.

(ii) Other creditors includes a long term construction contract with the Commonwealth of Australia (Commonwealth) Department of Defence as follows:

Gross amount of construction work in progress	**(1,024)**	(813)	**(1,024)**	(813)
Provisions for foreseeable losses	**605**	605	**605**	605
	(419)	(208)	**(419)**	(208)
Progress billings (a)	**735**	728	**735**	728
	316	520	**316**	520
(a) Includes progress billings, billed but not received at balance date (included in trade debtors)	**5**	27	**5**	27

(iii) The Commonwealth has guaranteed these payments in the event that the Telstra Entity becomes insolvent.
For details of the amount payable to the Telstra Superannuation Scheme refer to Note 21.

Net fair values

The carrying amounts of all accounts payable approximate net fair value.

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group As At 30 June		Telstra Entity As At 30 June	
	1998 $m	1997 $m	**1998 $m**	1997 $m
14. Borrowings				
Current				
(a) Short term debt				
Bank overdrafts (i)	**5**	12	**-**	11
Bills of exchange and promissory notes (ii)	**2,503**	159	**2,464**	130
	2,508	171	**2,464**	141
(b) Long term debt				
Bank loans (iii)	**5**	1,004	**-**	1,000
Telecom/Telstra bonds (iv)	**349**	178	**349**	178
Other loans (v)	**-**	135	**-**	135
Finance leases (vi) (refer Note 19)	**73**	72	**56**	57
	427	1,389	**405**	1,370
	2,935	1,560	**2,869**	1,511
Non Current				
(b) Long term debt				
Bank loans (iii)	**21**	2,013	**-**	2,000
Telecom/Telstra bonds (iv)	**2,338**	2,676	**2,338**	2,676
Other loans (v)	**2,298**	1,531	**2,298**	1,522
Finance leases (vi) (refer Note 19)	**130**	201	**78**	132
	4,787	6,421	**4,714**	6,330
Total debt payable				
(a) Short term debt				
Bank overdrafts (i)	**5**	12	**-**	11
Bills of exchange and promissory notes (ii)	**2,503**	159	**2,464**	130
	2,508	171	**2,464**	141
(b) Long term debt				
Bank loans (iii)	**26**	3,017	**-**	3,000
Telecom/Telstra bonds (iv)	**2,687**	2,854	**2,687**	2,854
Other loans (v)	**2,298**	1,666	**2,298**	1,657
Finance leases (vi) (refer Note 19)	**203**	273	**134**	189
	5,214	7,810	**5,119**	7,700
	7,722	7,981	**7,583**	7,841

Borrowings outstanding are unsecured, except for finance leases which are secured, as the rights to the leased asset revert to the lessor in the event of a default, and except for a bank overdraft of $4 million and a bank loan of $5 million held by an offshore controlled entity, which are secured against certain fixed and floating assets of that controlled entity.

The Commonwealth has guaranteed $217 million of these borrowings at 30 June 1998 (1997: $396 million).

The maturity table for all long term debt payable for the next five years ending 30 June and thereafter is as follows:

	Telstra Group						
	1999	**2000**	**2001**	**2002**	**2003**	**after 2003**	**Total**
				($ millions)			
Long term debt payable	427	128	590	67	650	3,406	5,268
Unamortised discount							(54)
							5,214

Notes to and forming part of the Financial Statements (Continued)

14. Borrowings (Continued)

(i) Bank Overdrafts

As at 30 June 1998, The Telstra Group's bank overdrafts are unsecured except for a $4 million bank overdraft of an offshore controlled entity which is secured against certain fixed and floating assets of that controlled entity. Interest on bank overdrafts is charged at the bank's prevailing benchmark rate. The effective interest rate was 18.0% for the year ended 30 June 1998, mainly in relation to the controlled entity's overdraft (1997: 8.75% mainly relating to the Telstra Entity's overdraft). The bank overdrafts are payable on demand and are subject to review, in accordance with market movements.

(ii) Bills of Exchange and Promissory Notes

The Telstra Group has issued bills of exchange and promissory notes of $2,503 million (1997: $159 million) to financial institutions with an original maturity of less than 180 days. At 30 June 1998, $2,474 million (1997: $159 million) of these bills of exchange and promissory notes mature in less than three months. The weighted average effective interest rate applicable to these bills of exchange and promissory notes at 30 June 1998 was 5.5% (1997: 5.7%).

(iii) Bank Loans

During the year ended 30 June 1998, the Telstra Group repaid the $3,000 million in syndicated revolving bank credit facilities drawn down at 30 June 1997. Bank loans have been made to controlled entities of the Telstra Group and are denominated in Indian Rupees and Sri Lankan Rupees. The Indian Rupees loan of A$12 million (1997: A$11 million) has an interest rate of 15.5% (1997: 18.0%). The Sri Lankan Rupees loans of A$14 million (1997: A$6 million) have interest rates of 16.3% (1997: 18.0%). The amounts of these loans that mature during each of the next five years ending 30 June and thereafter are as follows:

	Telstra Group						
	1999	2000	2001	2002	2003	after 2003	Total
	($ millions)						
Bank loans	5	15	3	1	1	1	26

(iv) Telecom/Telstra Bonds

Telecom/Telstra bonds are issued to both retail and wholesale investors and have effective interest rates ranging from 4.0% to 14.8% (1997: 4.0% to 14.8%), with maturities over the period to the year 2020 (1997: 2020). At 30 June 1998, Telecom/Telstra bonds were due as follows:

	Telstra Group					
Coupon Interest Rate:	up to 6.0%	up to 8.0%	up to 10.0%	up to 12.0%	up to 16.0%	Total
	($ millions)					
Due in the year ending June 30						
1999	10	84	21	234	-	349
2000	50	3	12	3	-	68
2001	8	11	28	17	492	556
2002	3	2	2	29	-	36
2003	-	-	62	516	-	578
After 2003	179	304	48	571	32	1,134
	250	404	173	1,370	524	2,721
Unamortised discount						(34)
						2,687

Notes to and forming part of the Financial Statements (Continued)

14. Borrowings (Continued)

(v) Other Loans

Other loans include domestic loans and offshore loans (denominated in foreign currencies) and the net (receivable)/payable on the currency swaps of ($239) million at 30 June 1998 (1997: $25 million) entered into to hedge these borrowings. A description of the objectives and significant terms and conditions relating to cross currency swaps used to hedge the offshore loans is detailed in Note 31. The Japanese Yen loans of A$116 million at 30 June 1998 (1997: A$352 million) have interest rates ranging from 5.1% to 5.6% (1997: from 5.1% to 6.0%) and maturity dates between October 2002 and May 2003 (1997: between October 1997 and June 2009). The US dollar loans of A$1,129 million at 30 June 1998 (1997: A$940 million) have interest rates ranging from 6.3% to 6.7% (1997: from 6.3% to 6.7%) and maturity dates of July 2003 and November 2005 (1997: maturity dates of July 2003 and November 2005). The French Franc loan of A$399 million (1997: A$340 million) has an interest rate of 6.1% (1997: 6.1%) and a maturity date of December 2006 (1997: December 2006). During the year ended 30 June 1998, the Telstra Group issued a Deutschemark Eurobond loan of A$893 million with an interest rate of 5.2% and maturity of April 2008. As at 30 June 1997, a controlled entity had an Australian dollar loan of $9 million which had a fixed interest rate of 7.3%. The amounts of these loans that mature during each of the next five years ending 30 June and thereafter are as follows:

	Telstra Group						
	1999	2000	2001	2002	2003	after 2003	Total
				($ millions)			
Other loans	-	-	-	-	62	2,256	2,318
Unamortised discount							(20)
							2,298

(vi) Finance Leases

The Australian dollar finance lease obligations have interest rates ranging from 6.5% to 12.5% (1997: 6.5% to 12.5%) and maturity dates between April 1999 and June 2003 (1997: July 1997 and June 2003). The Japanese Yen finance lease obligations have interest rates ranging from 1.5% to 3.4% (1997: 1.5% to 3.4%) and maturity dates between October 1998 and February 2005 (1997: October 1998 and February 2005). Details of minimum lease payments due under finance leases are disclosed in Note 19 to these financial statements.

Net fair values

The carrying amounts of bank overdrafts, bills of exchange and promissory notes, bank loans and finance lease liabilities, approximate net fair value. The net fair values of other borrowings where the carrying values (including accrued interest) are materially different to the net fair values are as follows:

	Telstra Group Carrying Value (i) As At 30 June		Telstra Group Net Fair Value As At 30 June	
	1998 $m	1997 $m	**1998 $m**	1997 $m
Telecom/Telstra bonds	**2,751**	2,924	**3,328**	3,461
Other loans (ii)	**2,601**	1,689	**2,842**	1,724

The difference between carrying value and net fair values relates principally to interest rate movements.

(i) Carrying value includes accrued interest.

(ii) The carrying value and net fair value of other loans excludes cross currency swaps which are disclosed in Note 31.

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group As At 30 June		Telstra Entity As At 30 June	
	1998 $m	1997 $m	**1998 $m**	1997 $m
14. Borrowings (Continued)				
Financing arrangements				
The Telstra Group has access to the following lines of credit:				
Credit standby arrangements				
- unsecured committed cash standby facilities, subject to annual review	**813**	789	**813**	784
- amount of credit unused	**813**	788	**813**	784
- an unsecured bill acceptance facility reviewable for extension on an annual basis	**50**	50	**-**	-
- amount of credit unused	**11**	22	**-**	-
- secured bank overdraft facilities, subject to biannual review with amounts drawn payable at call	**7**	-	**-**	-
- amount of credit unused	**3**	-	**-**	-
Loan facilities				
- unsecured bank term loan facilities	**2,028**	3,019	**2,000**	3,000
- amount of facilities unused	**2,002**	2	**2,000**	-
The Telstra Entity has in place commercial paper facilities with financial institutions under which it may issue up to $4,256 million (1997: $3,682 million). As at 30 June 1998, the Telstra Entity had drawn down $2,464 million (1997: $130 million) of these commercial paper facilities. These facilities are uncommitted and the Telstra Entity has no guaranteed access to funds and none of the facilities are underwritten.				
15. Provisions				
Current				
Dividends payable (refer Note 5)	**901**	521	**901**	521
Taxation	**474**	432	**457**	401
Employee entitlements (i)	**720**	891	**703**	874
Workers' compensation	**33**	25	**33**	25
Other provisions	**332**	449	**174**	288
	2,460	2,318	**2,268**	2,109
Non Current				
Employee entitlements (i)	**773**	923	**767**	918
Workers' compensation	**278**	219	**278**	219
Deferred income tax	**2**	3	**-**	-
Other provisions	**305**	380	**56**	97
	1,358	1,525	**1,101**	1,234
(i) Employee entitlements consist of amounts for annual leave, long service leave and redundancy payments to employees.				
Aggregate employee entitlements	**1,493**	1,814	**1,470**	1,792
The carrying amounts of all provisions approximates net fair value.				

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group & Telstra Entity			
	As At 30 June			
	1998 $m	**1998 US $m**	1997 $m	1996 $m
16. Share Capital: Telstra Entity				
The Telstra Entity's authorised share capital is 40,000 million (1997 and 1996: 20,000 million) ordinary shares with a par value of $0.50 each (1997 and 1996: par value $1.00 each) (i)	**20,000**	**12,416**	20,000	20,000
Issued and paid up share capital				
12,866,600,200 fully paid ordinary shares of $0.50 (i) (ii) (1997 and 1996: 4,933,300,100 fully paid ordinary shares of $1.00 each)	**6,433**	**3,994**	4,933	4,933
(1997 and 1996: 2,000,000,000 partly paid ordinary shares of $1.00 each paid to $0.75) (i)	**-**	**-**	1,500	1,500
	6,433	**3,994**	6,433	6,433
Movement in share capital				
Issued and paid up share capital at beginning of year	**6,433**	**3,994**	6,433	6,433
Buyback by Commonwealth of 2,000,000,000 partly paid ordinary shares of $1.00 each paid to $0.75 (i)	**(1,500)**	**(931)**	-	-
Issue of 1,500,000,000 ordinary shares with a par value of $1.00 each (i).	**1,500**	**931**	-	-
Issued and paid up share capital at end of year (ii)	**6,433**	**3,994**	6,433	6,433

(i) On 25 July 1997, the Commonwealth accepted a share buy-back offer from the Telstra Entity in respect of all of the 2,000,000,000 partly paid shares in the Telstra Entity held by the Commonwealth as at that date. The proceeds of this buy-back representing $1,500 million were applied by the Commonwealth to subscribe for 1,500,000,000 ordinary shares in the Telstra Entity with a par value of $1.00 each. As these transactions did not involve cash paid or received, they are not reflected in the cash flows from financing activities.

(ii) On 6 August 1997, a share split was approved so that all ordinary shares issued by the Telstra Entity on this date with a par value of $1.00 each were divided into two ordinary shares with a par value of $0.50 each. This resulted in authorised share capital of the Telstra Entity changing from 20,000,000,000 shares with a par value of $1.00 each to 40,000,000,000 shares with a par value of $0.50 each. The number of issued and paid up ordinary shares changed from 6,433,300,100 ordinary shares with a par value of $1.00 each, to 12,866,600,200 ordinary shares with a par value of $0.50 each.

Notes to and forming part of the Financial Statements (Continued)

17. Telstra Employee Share Ownership Plan

(a) Nature of the Scheme

During the year ended 30 June 1998, the Commonwealth sold approximately 33.33 per cent of its shares in the Telstra Entity in the form of instalment receipts (throughout this Note shares are defined to include instalment receipts). Part of the sale process involved an invitation to eligible employees to acquire shares under the Telstra Employee Share Ownership Plan (TESOP). The shares sold to eligible employees were ordinary share capital of the Telstra Entity at the time of sale.

(b) Eligibility to Participate

Shares were offered to all "eligible employees". This included employees who, on 20 September 1997, were employees of (a) the Telstra Entity; or (b) a company in which the Telstra Group owned more than 50 per cent of the issued capital (subsidiary), but excluding any person who, on 20 September 1997, was: (a) a part-time employee who received loading in lieu of employee benefits (such as sick leave, annual leave or long service leave); (b) a fixed term employee (ie. employed for a specific period); (c) a casual employee; (d) a contractor; (e) an employee on leave without pay except in the category of maternity/parental leave, sick leave and study leave, subject to verification of the person's status in these categories by the Telstra Group and its subsidiaries; or (f) an employee living outside Australia.

At 20 September 1997 64,309 employees were eligible to participate in the TESOP. Of these, 55,748 applied to and were accepted to participate in the TESOP and received loan shares and 2,282 employees used their own funds to acquire shares.

(c) The Offer to Eligible Employees

Eligible employees were entitled to participate in both of the following offers:

(i) the "One for Four Offer"; and
(ii) the "One for Ten Loyalty Offer".

(d) The "One for Four Offer"

(i) Terms of the "One for Four Offer"

Under the "One for Four Offer", the Commonwealth guaranteed that each eligible employee would be able to purchase up to 2,000 shares. For every four shares purchased under this offer, the eligible employee would receive one extra share free, up to a maximum of 500 extra shares ("extra shares"). The shares issued to employees under TESOP rank equally with all other Telstra Entity shares.

Eligible employees could elect to purchase shares under the "One for Four Offer" with their own funds, or use an interest-free loan provided by the Telstra Entity. If the employee chose to use the loan, the loan (less a $1.00 discount) was used to pay the first instalment of $1.95 per share on the employee's behalf. The Telstra Entity paid $55,748 direct to the Commonwealth representing the $1.00 discount per eligible employee on the cost of purchasing the shares. This discount is borne by the Telstra Entity and is not repayable by the employee. The Telstra Entity has agreed to make a further loan which will be used to pay the final instalment of $1.35 which is due on or before 17 November 1998. The Telstra Entity's recourse under the loan is limited to the amount recoverable through sale of the employees' shares. The loan is to be repaid from after-tax dividends received on the shares and extra shares. Provided the employee remains an employee of the Telstra Group or its subsidiaries, there is no date by which the loan must be repaid. However, the loan may be repaid in full at any time by the employee using his or her own funds.

While the employee remains an employee of the Telstra Group or its subsidiaries, the shares purchased under the "One for Four Offer" cannot be sold until 3 years after allocation. After 3 years, the employee may sell the shares, provided the loan is repaid in full.

The shares and extra shares are held on behalf of the employees by Telstra ESOP Trustee Pty Ltd as trustee for the TESOP. This company is a wholly owned subsidiary of the Telstra Entity.

If an eligible employee leaves the Telstra Group or its subsidiaries, they must repay the loan before the latter of: (a) two months after leaving the Telstra Group or its subsidiaries; (b) two months after the date for payment of the final instalment; or (c) twelve months if due to death or total and permanent disablement.

If the employee fails to repay the loan by the relevant due date, the Telstra ESOP Trustee Pty Ltd may sell the shares and extra shares and repay the loan with the sale proceeds.

If Telstra ESOP Trustee Pty Ltd is still the registered holder of an employee's shares on 4 November 1998, the Telstra Entity will advance the final instalment on behalf of the employee, even if the employee has left the Telstra Group or its subsidiaries.

(ii) Market price of shares

The market value at 17 November 1997 of shares issued to participants in the TESOP (including those paid for with the employees' funds - see (iv) below) was $277,279,841 (calculated using $1.95 per share). The total amount received by the Commonwealth for these shares for the first instalment was $221,823,872. The difference between the market value of shares issued and the amount paid to the Commonwealth represents the value of the free share received by TESOP participants for every four shares purchased. The market price of the shares recorded by the Australian Stock Exchange as at close of trade on 30 June 1998 was $4.14.

Notes to and forming part of the Financial Statements (Continued)

17. Telstra Employee Share Ownership Plan (Continued)

(d) The "One for Four Offer" (Continued)

(iii) Movements in loan shares, loan extra shares and loan repayments for the year ended 30 June 1998

	No. of employees	No. of shares held	Loan Amount $'000
Commencement of TESOP:			
Sale of loan shares to employees by the Commonwealth	55,748	109,979,100	214,404
Employee loan extra shares sold by the Commonwealth	55,748	27,494,775	-
		137,473,875	214,404
Reduced by:			
After tax dividend loan repayments by employees	-	-	7,741
Loan repayments (non dividend) and exits of the scheme	207	401,600	758
Employee loan extra shares exits of the scheme	207	100,400	-
Closing balances as at 30 June 1998:			
Employee loan shares (a)	55,541	109,577,500	205,905
Employee loan extra shares (a)	55,541	27,394,375	-
		136,971,875	205,905

Share loans to employees is split between:	
Current amount (Note 7)	46,240
Non Current amount (Note 7)	159,665
	205,905

(a) 4,275 employees who left the Telstra Group or its subsidiaries on or before 30 June 1998 are required to make arrangements to repay their loan before 17 January 1999, in default of which the Telstra ESOP Trustee Pty Ltd may sell their shares in order to repay the loan.

(iv) Purchase of shares in the "One for Four Offer" using the employees' own funds

In addition to acquiring shares under the TESOP by using interest free loan funding provided by the Telstra Entity, eligible employees were also able to apply for shares under TESOP by using their own funds to purchase up to the maximum of the original 2,000 shares offered under (i) above. Upon doing this, these employees were also able to obtain 1 extra share free for every 4 shares purchased up to the maximum of 500 extra shares offered under (i) above. 2,282 employees took up the offer under these terms and were issued 3,776,732 shares and 944,183 extra shares. The shares purchased with the eligible employees' funds are able to be sold at any time and once the eligible employee leaves the Telstra Group or its subsidiaries the extra shares may be sold at any time. The remaining employees participating in this part of the scheme at 30 June 1998 was 1,448 which corresponded to 571,333 extra shares.

(e) Employee Loyalty Share Offer

Eligible employees who purchased shares in the public offer with their own funds are entitled to receive one loyalty share, at no additional cost, for every ten shares purchased in the public offer and held through to 17 November 1998 to a maximum of 200 loyalty shares. Shares purchased under the "One for Four Offer" will not count towards determining the number of loyalty shares an employee may receive.

Employees who leave the Telstra Group or its subsidiaries are eligible to receive loyalty shares if the shares purchased in the public offer are still held by the employee on 17 November 1998. Loyalty shares may be sold any time after receiving them.

Notes to and forming part of the Financial Statements (Continued)

	Note	Telstra Group As At 30 June 1998 $m	1998 US $m	1997 $m	1996 $m	Telstra Entity As At 30 June 1998 $m	1997 $m
18. Reserves							
Asset revaluation reserve (i)		**65**	**40**	81	331	**310**	326
General reserve (ii)	23(i)	**1**	**1**	-	-	**-**	-
Satellite consortia revaluation reserve		**-**	**-**	-	21	**-**	-
Foreign currency translation reserve (ii)	23(i)	**(36)**	**(22)**	4	(6)	**-**	-
		30	**19**	85	346	**310**	326
Movements in reserves were:							
Asset revaluation reserve (i)							
Balance as at 1 July		**81**	**50**	331	313	**326**	331
Increment/(decrement) resulting from revaluation		**(16)**	**(10)**	(250)	18	**(16)**	(5)
Balance as at 30 June		**65**	**40**	81	331	**310**	326
General reserve							
Balance as at 1 July		**-**	**-**	-	-	**-**	-
Increment resulting from share of associated entities general reserve (ii)		**1**	**1**	-	-	**-**	-
Balance as at 30 June		**1**	**1**	-	-	**-**	-
Satellite consortia revaluation reserve							
Balance as at 1 July		**-**	**-**	21	20	**-**	21
Increment resulting from revaluation		**-**	**-**	8	1	**-**	8
		-	**-**	29	21	**-**	29
Transfer to retained earnings		**-**	**-**	(29)	-	**-**	(29)
Balance as at 30 June		**-**	**-**	-	21	**-**	-
Foreign currency translation reserve							
Balance as at 1 July		**4**	**3**	(6)	1	**-**	-
Translation adjustment on controlled foreign entities' financial statements		**7**	**4**	10	(7)	**-**	-
Translation adjustment on equity accounted associated entities (ii)	23(i)	**(47)**	**(29)**	-	-	**-**	-
Balance as at 30 June		**(36)**	**(22)**	4	(6)	**-**	-

(i) $245 million of the Telstra Entity asset revaluation reserve cannot be utilised by the Telstra Entity to record decrements to previously revalued assets or distributed to shareholders, as this amount was used by the Telstra Group in relation to the writedown of the broadband network in the year ended 30 June 1997 (refer Note 3(b)(iii)).

(ii) The amount of reserves applicable to associated entities are shown in Note 23(i).

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group As At 30 June		Telstra Entity As At 30 June	
	1998 $m	1997 $m	**1998 $m**	1997 $m
19. Expenditure Commitments				
(a) Capital expenditure commitments				
Aggregate capital expenditure commitments contracted for at balance date but not provided for in the financial statements:				
Within 1 year	**636**	789	**552**	746
Within 1-2 years	**245**	190	**226**	190
Within 2-3 years	**124**	1	**119**	1
Within 3-4 years	**115**	4	**115**	4
Within 5 years	**116**	-	**116**	-
After 5 years	**442**	-	**442**	-
	1,678	984	**1,570**	941
Included above commitments are capital commitments relating to Information Technology Services as follows:	**972**	-	**972**	-
These capital commitments relate to amounts to be spent on capitalised software developed for internal use under a 10 year contract with IBM Global Services Australia Limited (IBMGSA) (Refer Note 19(d)(ii) for other commitments relating to IBMGSA).				
(b) Operating lease commitments				
Future lease payments for non-cancellable operating leases:				
Within 1 year	**196**	180	**181**	167
Within 1-2 years	**158**	142	**147**	132
Within 2-3 years	**107**	112	**99**	107
Within 3-4 years	**83**	92	**78**	88
Within 5 years	**66**	75	**62**	71
After 5 years	**232**	254	**228**	243
	842	855	**795**	808

In addition, the Telstra Group has commitments under cancellable operating leases of $56 million for the year ending 30 June 1999 (1997: $23 million for the year ending 30 June 1998). The Telstra Entity has commitments under cancellable operating leases of $40 million for the year ending 30 June 1999 (1997: $14 million for the year ended 30 June 1998).

Notes to and forming part of the Financial Statements (Continued)

	Note	Telstra Group As At 30 June 1998 $m	Telstra Group As At 30 June 1997 $m	Telstra Entity As At 30 June 1998 $m	Telstra Entity As At 30 June 1997 $m
19. Expenditure Commitments (Continued)					
(c) Finance lease commitments					
Within 1 year		**80**	90	61	68
Within 1-2 years		**50**	83	31	61
Within 2-3 years		**34**	52	18	31
Within 3-4 years		**30**	36	10	18
Within 5 years		**11**	32	11	10
After 5 years		**17**	29	16	28
Total minimum lease payments		**222**	322	147	216
Future finance charges on finance leases		**(19)**	(49)	(13)	(27)
Present value of net future minimum lease payments		**203**	273	134	189
Current	14	**73**	72	56	57
Non Current	14	**130**	201	78	132
		203	273	134	189

Included in finance lease commitments of the Telstra Entity are finance leases with a controlled entity of $60 million (1997: $66 million). The current amount of these finance leases is $8 million (1997: $7 million), non current $52 million (1997: $59 million).

(d) Other commitments

Other expenditure commitments, other than commitments dealt with in (a), (b) and (c) above, which have not been provided for in the financial statements are:

Within 1 year	**1,030**	541	840	358
Within 1-2 years	**538**	273	452	209
Within 2-3 years	**554**	236	466	153
Within 3-4 years	**540**	184	455	93
Within 5 years	**506**	186	422	92
After 5 years	**1,663**	1,765	1,015	84
	4,831	3,185	3,650	989

The above other expenditure commitments include contracts for printing, engineering and operational support services, software maintenance, agency fees and building maintenance. The above commitments also include commitments relating to the Telstra Group's investment in partnerships (refer Note 23(ii)) and commitments relating to information technology services as follows:

Partnership commitments (i)	**1,064**	2,054	-	-
Commitments relating to Information Technology Services (ii)	**2,307**	-	**2,307**	-

(i) Partnership commitments principally relate to Telstra Group's share of minimum subscriber guarantees of approximately US$1,306 million (1997: US$3,063 million) for pay television programming agreements over remaining periods of between 3 and 23 years, based on current prices and costs under agreements entered into between the FOXTEL Partnership and various other parties. These minimum subscriber payments are subject to fluctuation in accordance with price escalation / reduction formulae in the agreements.

Notes to and forming part of the Financial Statements (Continued)

19. Expenditure Commitments (Continued)

(d) Other commitments (Continued)

(ii) Commitments for Information Technology (IT) Services result from a contract with IBMGSA, whereby IBMGSA will provide IT services to the Telstra Entity and designated Australian controlled entities for a period of 10 years. The Telstra Entity is committed to a total amount of $3,279 million over the period, of which $972 million relates to a capital commitment (refer Note 19(a)).

Telstra Employee Share Ownership Plan

To fulfil its obligations under the rules of the Telstra Employee Share Ownership Plan, the Telstra Entity is obliged to provide further interest free loans of approximately $148 million to eligible employees (when called upon by the Telstra Instalment Receipt Trustee) on or prior to 17 November 1998 to enable the second instalment on the employee's Telstra Entity shares to be advanced. This amount is included in amounts due within 1 year above. Refer to Note 17(d)(i) for further information.

20. Contingent Liabilities

The details and maximum amounts (where reasonable estimates can be made) are set out below for contingent liabilities of:

Telstra Entity

Legal Actions

In 1995, British Telecom Australasia Pty Limited (BTA) commenced proceedings against the Government of New South Wales (NSW) and the Telstra Entity arising out of BTA terminating a 1992 telecommunications and data network supply agreement (the agreement) between BTA and NSW. Subsequently British Telecommunications plc (BT plc) made similar claims against the Telstra Entity and NSW. BTA and BT plc have so far asserted claims for direct damages, jointly against the Telstra Entity and NSW of approximately $315 million in expectation damages and approximately $155 million in reliance damages. The allegations include claims that the Telstra Entity misused market power, engaged in misleading and deceptive conduct and induced NSW to breach its obligations under the agreement. BTA has also claimed contribution and indemnity from the Telstra Entity for any damages awarded to NSW on its cross-claim against BTA for substantial damages, including damages of approximately $405 million, and other damages not quantified in the current pleading. The Telstra Entity and NSW have filed cross-claims against each other in respect of any recovery by BTA and BT plc. It is not expected that a trial will commence before February 1999. The Telstra Entity believes it has substantial defences to, and intends to defend vigorously, these claims. Telstra further believes these claims are unlikely to have a material effect on the Telstra Entity.

The Telstra Entity is currently involved in litigation with four of its wholesale customers - AAPT, I-Tel, First Netcom Pty Ltd and QAI Australia Ltd/Southern Cross Telco Pty Ltd. These proceedings (other than I-Tel) generally involve claims by the Telstra Entity for substantial charges it believes remain unpaid for the provision by the Telstra Entity of telecommunications services and claims by the wholesale customers for substantial amounts. The wholesale customers dispute that the amounts claimed by the Telstra Entity or any amounts are owing by them, and typically contend that they are entitled to offset their claims against amounts claimed by the Telstra Entity. The wholesale customers' claims typically include claims for revenue allegedly foregone from delayed on-billing of third-party customers and loss of customers and/or revenue from allegedly incorrect or delayed billing and alleged breaches by the Telstra Entity of the Telecommunications Act, Trade Practices Act and contract. It is not possible on the information currently available to assess the likely outcome of the various proceedings.

On 10 September 1997, Optus Communications Pty Ltd (Optus) and two of its subsidiaries, Optus Networks Pty Ltd (Optus Networks) and Optus Vision Pty Ltd (Optus Vision), commenced proceedings in the Federal Court of Australia against the Telstra Entity, Telstra Media Pty Ltd (Telstra Media) and Sky Cable Pty Ltd (Sky Cable), a subsidiary of News Corporation Limited (News Corporation). The claims against Telstra Media and Sky Cable have since been discontinued. The claims made against the Telstra Entity assert that the Telstra Entity has acted in breach of section 46 of the Trade Practices Act by taking advantage of a substantial degree of power in various markets for prohibited purposes. The asserted misconduct relates to an alleged refusal by the Telstra Entity to supply local number portability and local call resale to Optus on reasonable terms and conditions. Optus also asserts that the Telstra Entity has breached section 46 of the Trade Practices Act, by reason of the arrangements for the supply of Pay TV carriage services from the Telstra Entity to FOXTEL and certain arrangements concerning the construction of the Telstra broadband network. Optus claims unquantified damages including interest. The Telstra Entity believes that it has substantial defences to these claims and intends to defend the action vigorously. Nevertheless, at this early stage it is not possible, on the information currently available, to assess the effect of the proceedings on the Telstra Entity. If, however, Optus is successful in the litigation, it could have a material adverse effect on the Telstra Entity's financial results, operations and competitive position.

In addition to the above, certain common law claims by employees and third parties are yet to be resolved. The maximum amount of these contingent liabilities cannot be reasonably estimated. Management believes that the resolution of these contingencies will not have a material adverse effect on the Telstra Entity's financial position, results of operations or cash flows.

Notes to and forming part of the Financial Statements (Continued)

20. Contingent Liabilities (Continued)

Telstra Entity (Continued)

Indemnities, Performance Guarantees and Support

The Telstra Entity has provided indemnities to financial institutions to support bank guarantees to the value of $305 million (1997: $290 million) in respect of the performance of contracts.

The Telstra Entity has provided indemnities to financial institutions in respect of the obligations of controlled entities to the financial institutions. The maximum amount of the Telstra Entity's contingent liabilities was $40 million (1997: $28 million).

The Telstra Entity has resolved to provide financial support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due. The financial support is subject to conditions including individual monetary limits totalling $18 million (1997: $21 million) and a requirement that the entity remains a controlled entity.

During the year ended 30 June 1998, the Telstra Entity resolved to provide its associated entity, IBMGSA with the Telstra Group's pro rata 26 per cent share of shareholder guarantees on a several basis up to $210 million through to the end of the calendar year 2000. These guarantees may be made with IBMGSA bankers or directly to IBMGSA customers. As at 30 June 1998 no guarantees had been provided.

Controlled Entities

Indemnities

The controlled entities had, at 30 June 1998, outstanding indemnities in respect of obligations to financial institutions and corporations. The maximum amount of the controlled entities' contingent liabilities in respect of these indemnities was $8 million (1997: $23 million).

In addition, Telstra Global Limited, under the P.T. Mitra Global Telekomunikasi Indonesia (MGTI) joint venture agreement, is severally liable for the contribution of outstanding base equity should the other shareholders of MGTI default from contributing their share. The maximum amount of this additional equity contribution would be $182 million (US$112 million) (1997: $150 million; US$112 million), this excludes Telstra Global Limited's $42 million (US$28 million) current capital commitment included in Note 19(a). The agreement also allows for contingent equity calls to be made by MGTI if certain conditions are met. Should the contingent equity be called, Telstra Global Limited will be liable to contribute additional equity of $22 million (US$14 million) (1997: $18 million; US$14 million). If the other shareholders in MGTI default on contributing their share of a contingent equity call, Telstra Global Limited may be liable to contribute an additional $89 million (US$54 million) (1997: $72 million; US$54 million) as contingent equity. Telstra Global Limited executed a guarantee on 31 October 1995 for $60 million (US$37 million) (1997: $50 million; US$37 million), to guarantee that certain performance targets would be achieved by MGTI under the KSO agreement, against which indemnities of $42 million (US$25 million) (1997: $33 million; US$25 million) have been issued, by certain shareholders of MGTI, in favour of Telstra Global Limited. To date the performance targets have been met and there is no indication that they will be breached.

Telstra Global Limited has granted a limited recourse pledge over its shares in MGTI in support of MGTI's obligations under a $782 million (US$480 million) (1997: $636 million; US$480 million) Loan Agreement dated 23 September 1996 between MGTI and various lenders. Debt finance of US$160 million has been drawn down from this facility by MGTI. The lenders have no recourse under the pledge to the assets of Telstra Global Limited other than to its shares in MGTI (except in the case of a breach of representation, warranty or covenant by Telstra Global Limited).

Other

As at 30 June 1998 and 1997 there are no contingent liabilities of the Telstra Entity or its controlled entities for termination benefits under service agreements with Directors or persons who take part in the management of the Telstra Group.

The Telstra Entity and its equal partner News Corporation, and Telstra Media and its partner Sky Cable, have entered into agreements relating to pay television programming with various parties, under which commitments for minimum subscriber fees exist over periods covering 25 and 10 years respectively. Due to joint and several liability under the agreements, in the event that News Corporation or Sky Cable fail to meet any of their obligations in respect of the minimum subscriber payments, the Telstra Entity and Telstra Media would be contingently liable to the extent of those failures. Refer Note 19(d) for details of minimum subscriber payment commitments.

Telstra Corporation Limited, QPSX Communications Pty Ltd, Telstra Holdings Pty Ltd, Telstra International Limited, Telstra Communications Limited, Telstra R&D Management Pty Ltd, Telstra Multimedia Pty Ltd, On Australia Pty Ltd and Telstra Finance Limited (as trustee to the deed of cross guarantee) have entered into a deed of cross guarantee dated 4 June 1996 as described in Note 22(1). Telstra Media Holdings Pty Ltd entered into an assumption deed dated 30 April 1998. The execution of this assumption deed also resulted in Telstra Media Holdings Pty Ltd becoming a party to the deed of cross guarantee dated 4 June 1996 as disclosed in Note 22(1).

Notes to and forming part of the Financial Statements (Continued)

21. Superannuation Commitments

The Telstra Group sponsors or participates in a number of superannuation schemes which provide benefits for its employees and their dependants on cessation of employment.

The Telstra Entity or one of its predecessor companies established the defined benefit superannuation schemes, the Telstra Superannuation Scheme (TSS) and TSS No.1, on 1 July 1990. From 1 July 1997 the TSS No.1 was merged into the TSS and benefits are provided through Division 5 of the TSS. Prior to 1 July 1990, all eligible employees of the Telstra Entity were members of the Commonwealth Superannuation Scheme (CSS). The CSS is an employer sponsored scheme for Commonwealth Public Sector employees. Under the CSS, the Telstra Entity is responsible for funding all employer financed benefits that arise from 1 July 1975 in respect of its employees who are members of the CSS. It is the Telstra Entity's policy to contribute to the schemes at rates specified in the governing rules (for accumulation schemes) or determined by the respective schemes' actuaries (for defined benefit schemes).

Defined Benefit Schemes

The Telstra Entity participates in two (1997: three) defined benefit superannuation schemes which provide retirement benefits to substantially all Telstra Group employees. These schemes, the main type of benefits provided by each scheme, and the number of members at 30 June 1998 and 1997 are listed below:

Name of Scheme	Type of benefit	Members 1998	Members 1997
Commonwealth Superannuation Scheme (CSS)	Pension	30,906 (i)	31,049 (i)
Telstra Superannuation Scheme (TSS)	Lump Sum	72,163	72,305
Telstra Superannuation Scheme No.1 (TSS No.1)	Lump Sum	- (ii)	624

(i) This is the number of members in the CSS who are/were employed by the Telstra Group. The membership number includes 23,665 (1997: 22,455) former Telstra Group employees receiving or entitled to receive pension benefits and 7,241 (1997: 8,594) members still employed by the Telstra Group.

(ii) On 1 July 1997, all members of TSS No.1 were transferred to Division 5 of the TSS and the TSS No.1 is no longer in operation.

The assets of the TSS are invested in government securities, cash, equity shares, property and a variety of other securities.

The benefits provided by each scheme vary but reflect factors such as the employee's length of service, final average salary, employer and employee contributions. The relative importance of each factor varies with scheme design.

Employer contributions paid to the schemes and expensed for the years ended 30 June 1998, 1997 and 1996 were $294 million, $340 million and $320 million respectively.

The financial position of the TSS and TSS No.1, and the Telstra Group's notional fund in the CSS defined benefit superannuation schemes, measured and disclosed in accordance with Australian Accounting Standards, may be shown as follows at 30 June:

	TSS (1), (3)		TSS No.1 (1)		CSS (2)		Total	
	As At 30 June		As At 30 June		As At 30 June		As At 30 June	
	1998 $m	1997 $m	**1998 $m**	1997 $m	**1998 $m**	1997 $m	**1998 $m**	1997 $m
Accrued benefits	**4,196**	4,477	**-**	61	**5,528**	5,263	**9,724**	9,801
Scheme assets	**5,971**	6,071	**-**	90	**8,546**	7,069	**14,517**	13,230
Net surplus	**1,775**	1,594	**-**	29	**3,018** (2)	1,806	**4,793**	3,429
Vested benefits	**5,003**	5,338	**-**	78	**6,049**	5,645	**11,052**	11,061

(1) Amounts for Divisions 2 and 5 of the TSS and TSS No.1 (for the year ended 30 June 1997) have been obtained from the accounts of the schemes at 30 June 1998 and 1997. The scheme assets are stated at net market values. The TSS No.1 scheme has merged with the TSS scheme from 1 July 1997.

(2) The CSS amounts for 30 June 1998 and 1997 show the Telstra Group's share of the benefit liability in respect of its employees and former employees in the CSS. The CSS figures for 30 June 1998 are at the date of the last actuarial valuation dated 30 June 1997 which was concluded on 24 July 1998.

As the amount of surplus is currently being reviewed with the Commonwealth Department of Finance & Administration, these figures may be subject to revision. For the purposes of discussions with the Commonwealth in relation to the repatriation of the surplus to the TSS (refer discussion under Commonwealth Superannuation Scheme), future service benefits of $1,223 million should be added to the accrued benefits above. The CSS figures for 30 June 1997 are at the date of the actuarial review dated 30 June 1995.

Notes to and forming part of the Financial Statements (Continued)

21. Superannuation Commitments (Continued)

(3) The Telstra Entity has committed to contribute an additional $121 million per annum to the TSS over sixteen years, commencing with the year ended 30 June 1996, to ensure that the TSS is not in an unsatisfactory financial position. As at 30 June 1998 the present value of the liability remaining is $785 million (1997: $810 million) (refer Note 13). As a result of legal agreements entered into between the Telstra Entity, the Commonwealth and the Trustee of the TSS, the TSS has recognised this receivable from the Telstra Entity as an asset of the scheme, thus eliminating the estimated shortfall in the scheme. The Commonwealth has guaranteed the Telstra Entity's payment in the event that the Telstra Entity becomes insolvent over the period of the agreement.

Commonwealth Superannuation Scheme

The Commonwealth has not established a separate trust for employer contributions to the CSS. Employer contributions by the Telstra Entity and certain other employers that participate in the CSS are paid directly to the Commonwealth Consolidated Revenue Fund. Employee contributions to the CSS are segregated and separately managed.

Every three years, separate actuarial reviews are carried out for the Telstra Entity and certain other employers that participate in the CSS. The purpose of this review is to establish the appropriate funding rate to be paid by that employer to cover that employer's liabilities in the CSS. To determine the funding status of these employers, and the level of contributions, a notional fund is created for each of these employers.

The Telstra Entity's notional fund is credited with all contributions made by the Telstra Entity in respect of its CSS members and debited with the Telstra Entity's share of benefit payments. The balance of the notional fund is credited with interest based on the rates applicable to assets invested by the TSS.

At the date of the last actuarial investigation of the Telstra Entity's participation in the CSS by S. Schubert FIAA as at 30 June 1997, the value of the Telstra Entity's notional fund was sufficient to satisfy all employer financed benefits that would have vested under the CSS in the event of the voluntary or compulsory termination of employment of all CSS members. The actuarial valuation confirmed that the Telstra Entity does not need to contribute to the CSS.

The Telstra Entity's past contributions to the CSS has resulted in the Telstra Entity being credited with a surplus in the notional fund of the CSS. The Commonwealth has indicated that repatriation of part of that surplus to the TSS will be permitted where the surplus is greater than 15 per cent of the sum of the employer financed benefits (past and future service) for the Telstra Entity's existing CSS members and outstanding deferred transfer value payments for ex-CSS members who transferred to the TSS. The actuarial valuation as at 30 June 1997 confirmed that the CSS surplus was greater than 15 per cent and the Telstra Entity is in discussions with the Commonwealth regarding the repatriation of this surplus to the TSS.

Telstra Superannuation Scheme

Defined Benefit Divisions

After establishment of the TSS a majority of the Telstra Entity's CSS members transferred to the TSS. As CSS members transferred, the liability for benefits in respect of their past service was assumed by the TSS and a transfer of amounts was made from the CSS to the TSS (A similar arrangement with the Commonwealth is in place for the TSS No.1 (now TSS Division 5)). The amount transferred did not bear a direct relationship to the benefits granted by the TSS, but this difference was to be eliminated over time by employer contributions to the TSS and investment earnings on the assets. The portion of the amount transferred that related to the employer contributions is being paid by the Commonwealth to the TSS directly, over an extended period, with the pattern of payments based on an actuarial assessment of the likely timing of benefit payments from the TSS. This amount is recorded as an asset of the TSS and a liability of the CSS for the purposes of determining the funded status of each scheme.

An actuarial investigation has been conducted by S. Schubert FIAA on the TSS as at 30 June 1997. On the assumption that the CSS surplus, net of 15 per cent contributions tax payable on its transfer into the TSS, is available to increase the assets of the TSS, the actuary has recommended that the Telstra Entity cease defined benefit contributions to the TSS (other than the additional contributions of $121 million per annum that the Telstra Entity is committed to contribute to the TSS over the next 13 years) for the 3 year period 1 July 1998 to 30 June 2001. Based on that advice, the Telstra Entity Board of Directors (subsequent to year end) has agreed that the employer contribution rate to the TSS will be reduced to nil for the next three years, subject to a satisfactory outcome from the above-mentioned discussions and a consequential response from the Minister for Finance and Administration.

Defined Contribution Division

The Telstra Entity also contributes to Division 3 of the TSS which provides benefits on a defined contribution basis. Division 3 provides a productivity superannuation benefit which began to accrue in 1988 in respect of members of the CSS and also provides superannuation benefits to Telstra Entity employees who are not eligible to become members of Division 2 or 5 of the TSS or the CSS (i.e. new executives, casuals, part time employees etc.). Employer contributions to Division 3 are made at the rate required by the governing rules. TSS Division 3 provides lump sum benefits based on the level of contributions and investment earnings.

Employer contributions paid to Division 3 and expensed for the year ended 30 June 1998, 1997 and 1996 were $10 million, $13 million and $14 million respectively.

Notes to and forming part of the Financial Statements (Continued)

21. Superannuation Commitments (Continued)

Within the TSS is also a Deferred Benefit Rollover facility known as Division 4 of the TSS. This division does not require the Telstra Entity to make contributions but is available to any Telstra Entity employee who wishes to retain superannuation entitlements in the TSS upon retirement or ceasing employment with the Telstra Entity.

Other Schemes

Pacific Access Pty Ltd, a controlled entity, sponsors the Pacific Access Superannuation Fund (PA scheme), a defined benefit and accumulation superannuation scheme. The PA scheme has approximately 1,900 (1997: 1,400) employee members. Employees contribute to the PA scheme at various percentages of their salaries and Pacific Access Pty Ltd contributes to the PA scheme at rates determined following actuarial investigations which are carried out every three years, so as to meet benefit levels established by the rules of the PA scheme. Employer contributions paid to the PA scheme and expensed for the year ended 30 June 1998, 1997 and 1996 were $5 million, $4 million and $4 million respectively.

The latest actuarial assessment of the PA scheme was undertaken as at 1 July 1997 by W. E. Walker FIAA. As at 1 July 1997 the net assets of the PA scheme and the value of accrued benefits were $27 million and $24 million respectively, resulting in a $3 million surplus of net market value of PA scheme's assets over accrued benefits as at that date. As at 30 June 1998, net assets of the PA scheme were $33 million (1997: $27 million) and the vested benefits were approximately $28 million (1997: $22 million).

The Telstra Group also contributes to other external defined contribution superannuation schemes for a small number of its executive employees. Lump sum benefits are provided by these schemes.

Notes to and forming part of the Financial Statements (Continued)

22. Investments in Controlled Entities

Name of entity	Country of incorporation	Book value of the Telstra Entity's equity investment (i) As At 30 June 1998 $m	Book value of the Telstra Entity's equity investment (i) As At 30 June 1997 $m	% of equity held As At 30 June 1998 %	% of equity held As At 30 June 1997 %
Parent Entity:					
Telstra Corporation Limited (1)	Australia				
Controlled Entities:					
Telstra Rewards Pty Ltd (3) **	Australia	**-**	-	**100.0**	100.0
• Telstra Visa Card Trust	Australia	**-**	-	**100.0**	100.0
• Qantas Telstra Card Trust	Australia	**-**	-	**100.0**	100.0
Navigator Communications Pty Ltd (2)	Australia	**-**	3	**-**	100.0
Telecom Messagetech Pty Ltd **	Australia	**4**	4	**51.1**	51.1
• Sarzeau (NSW) Pty Ltd *	Australia	**-**	-	**100.0**	100.0
Telstra Technologies Pty Ltd (13) *	Australia	**13**	13	**100.0**	100.0
• Lyer Nystal Pty Ltd (2)	Australia	**-**	-	**-**	100.0
On Australia Pty Ltd (1)	Australia	**11**	11	**100.0**	100.0
Telecommunications Equipment Finance Pty Ltd (4)	Australia	**-**	-	**-**	-
Telstra Finance Limited (1) (3)	Australia	**-**	-	**100.0**	100.0
Transport Communications Australia Pty Ltd *	Australia	**4**	4	**100.0**	100.0
Telstra ESOP Trustee Pty Ltd (3) (6) (9) *	Australia	**-**	-	**100.0**	-
Telstra Media Pty Ltd (3) *	Australia	**-**	-	**100.0**	100.0
Telstra Multimedia Pty Ltd (1)	Australia	**1,590**	1,240	**100.0**	100.0
Telstra Media Holdings Pty Ltd (1) (3) (13)	Australia	**-**	-	**100.0**	100.0
Lawpoint Pty Ltd (13)	Australia	**2**	2	**60.0**	60.0
Telstra R&D Management Pty Ltd (1)	Australia	**1**	1	**100.0**	100.0
Telstra Ventures Pty Ltd *	Australia	**3**	3	**100.0**	100.0
QPSX Communications Pty Ltd (1)	Australia	**8**	8	**100.0**	100.0
Pacific Access Pty Ltd (7) (13)	Australia	**58**	28	**75.0**	62.5
• Pacific Access Enterprises Pty Ltd (7) *	Australia	**-**	-	**100.0**	100.0
• Pacific Access (Thailand) Ltd (2) (14)	Thailand	**-**	-	**100.0**	100.0
• WorldCorp Holdings (S) Pte Ltd (8) (14)	Singapore	**-**	-	**100.0**	-
• WorldCorp Publishing Pte Ltd (8) (14)	Singapore	**-**	-	**100.0**	-
Telstra Pay TV Investments Pty Ltd (3) (9) *	Australia	**-**	-	**100.0**	-
Atlas Travel Technologies Pty Ltd (10)	Australia	**13**	-	**52.5**	-
• Atlas Travel Technologies Inc. (10) (14)	United States	**-**	-	**100.0**	-
• Moneydirect International Limited (10) (14)	United Kingdom	**-**	-	**100.0**	-
• Moneydirect Pty Ltd (10) **	Australia	**-**	-	**100.0**	-
• Moneydirect Limited (10) (14)	New Zealand	**-**	-	**100.0**	-
OTC Electronic Trading Pty Ltd (2)	Australia	**-**	3	**-**	100.0
Telesoft Communications Pty Ltd (2)	Australia	**-**	4	**-**	100.0
T-Net Pty Ltd (2)	Australia	**-**	1	**-**	100.0
Advanced Network Management Pty Ltd *	Australia	**1**	1	**100.0**	100.0
Telstra International Limited (1)	Australia	**84**	48	**100.0**	100.0
• Modi Telstra (Private) Limited (11) (14)	India	**-**	-	**49.0**	49.0
Telstra Communications Limited (1)	Australia	**29**	29	**100.0**	100.0
• DirectoryNet Inc. (14)	United States	**-**	-	**100.0**	100.0
• Telecom Australia (Saudi) Co. Ltd (5) (11) (14)	Saudi Arabia	**-**	-	**50.0**	50.0
Telstra Holdings Pty Ltd (1)	Australia	**336**	320	**100.0**	100.0
• Telstra (Malaysia Holdings) Sdn. Bhd. (14)	Malaysia	**-**	-	**100.0**	100.0
• Telstra International (HK) Holdings Limited (14)	Hong Kong	**-**	-	**100.0**	100.0
• Mobitel (Private) Limited (14)	Sri Lanka	**-**	-	**60.0**	60.0

(Table continued over page)

Notes to and forming part of the Financial Statements (Continued)

22. Investments in Controlled Entities (Continued)

Name of entity	Country of incorporation	Book value of the Telstra Entity's equity investment (i)		% of equity held	
		As At 30 June		As At 30 June	
		1998	1997	**1998**	1997
		$m	$m	**%**	%
• Telstra (New Zealand) Limited (14)	New Zealand	**-**	-	**100.0**	100.0
• Navigator Communications (NZ) Limited (14)	New Zealand	**-**	-	**100.0**	100.0
• Telstra Global Limited (14)	United Kingdom	**-**	-	**100.0**	100.0
• Telstra UK Limited (14)	United Kingdom	**-**	-	**100.0**	100.0
• PT Telstra Nusantara (14)	Indonesia	**-**	-	**100.0**	100.0
• PT Jastrindo Dinamika (5) (14)	Indonesia	**-**	-	**75.0**	75.0
• Telstra Inc. (14)	United States	**-**	-	**100.0**	100.0
• Telstra Vishesh Communications Ltd (5) (11) (14)	India	**-**	-	**40.0**	40.0
• Satel (12) (14)	Kazakhstan	**-**	-	**-**	40.0
• Telstra South Asia Holdings Limited (14)	Mauritius	**-**	-	**100.0**	100.0
• Telstra India (Private) Limited (9) (14)	India	**-**	-	**100.0**	-
• Telstra Singapore Pte Ltd (9) (14)	Singapore	**-**	-	**100.0**	-
	Note 9	**2,157**	1,723		

(i) The amounts recorded are before any provision for diminution in value (refer Note 9).

* These entities are small proprietary companies which are not required to prepare and lodge individual audited financial statements with the ASIC.

** These entities are small proprietary companies which have prepared a separate audited set of financial statements.

(1) Telstra Corporation Limited, QPSX Communications Pty Ltd, Telstra Holdings Pty Ltd, Telstra International Limited, Telstra Communications Limited, Telstra R&D Management Pty Ltd, Telstra Multimedia Pty Ltd, On Australia Pty Ltd and Telstra Finance Limited (as trustee) have entered into a deed of cross guarantee dated 4 June 1996. Under the deed of cross guarantee each of the above named companies guarantees the payment in full of the debts of the other named companies in the event of their winding up. Telstra Finance Limited has been appointed as trustee to the deed of cross guarantee.

Pursuant to ASIC Class Order 95/1530 dated 10 November 1995 (as amended), relief has been granted to Telstra Media Holdings Pty Ltd and the entities listed above (wholly owned subsidiaries of Telstra Corporation Limited) from the Corporations Law requirements for preparation and lodgement of audited accounts. As a condition of the Class Order, the entities listed above and Telstra Media Holdings Pty Ltd, entered into an assumption deed dated 30 April 1998. The execution of this assumption deed resulted in Telstra Media Holdings Pty Ltd becoming a party to the deed of cross guarantee dated 4 June 1996, as described above.

The consolidated assets and liabilities of the class order entities (listed above) at 30 June 1998 and 1997 (with the exception of Telstra Finance Limited as trustee), and their consolidated net profit after income tax expense for the years then ended (after eliminating all transactions between them) are as follows:

	As At 30 June	
	1998	1997
	$m	$m
Assets	**26,067**	26,249
Liabilities	**15,024**	16,271
Net Assets	**11,043**	9,978
Net profit after income tax expense	**2,976**	1,405

(2) As at 30 June 1998, Pacific Access (Thailand) Ltd is in the process of being liquidated. OTC Electronic Trading Pty Ltd, Telesoft Communications Pty Ltd and T-Net Pty Ltd were liquidated on 29 June 1998, Navigator Communications Pty Ltd was liquidated on 26 June 1998 and Lyer Nystal Pty Ltd was liquidated on 28 July 1997.

Notes to and forming part of the Financial Statements (Continued)

22. Investments in Controlled Entities (Continued)

(3) Investments eliminated when rounded to the nearest million dollars are:

	As At 30 June	
	1998	1997
	$	$
Telstra Rewards Pty Ltd	**2**	2
Telstra Finance Limited	**2**	2
Telstra ESOP Trustee Pty Ltd.	**2**	-
Telstra Media Pty Ltd	**2**	2
Telstra Media Holdings Pty Ltd . . .	**2**	2
Telstra Pay TV Investments Pty Ltd	**1**	-

(4) The Telstra Group has no investment in Telecommunications Equipment Finance Pty Ltd. The Telstra Group has effective control through economic dependency and has consolidated Telecommunications Equipment Finance Pty Ltd in accordance with AASB 1024. Telecommunications Equipment Finance Pty Ltd has no assets and no liabilities.

(5) These companies have different balance dates to the Telstra Entity's balance date of 30 June. They are as follows: Telstra Vishesh Communications Ltd - 31 March; Telecom Australia (Saudi) Co. Limited and PT Jastrindo Dinamika - 31 December. Accounts prepared as at 30 June are used for consolidation purposes.

(6) The Telstra Entity owns 100 per cent of the issued share capital of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust. Telstra Corporation Limited paid $10 as the settled sum to create the trust which is administered by Telstra ESOP Trustee Pty Ltd. The Telstra Group does not control or significantly influence the trust as beneficial ownership and control rests with the employees of the trust, therefore in accordance with AASB 1024 the trust has not been consolidated.

(7) On 5 September 1997, the Telstra Entity acquired an additional 12.5 per cent equity in Pacific Access Pty Ltd for $30 million to increase the Telstra Entity's total equity in Pacific Access Pty Ltd from 62.5 per cent at 30 June 1997 to 75 per cent.

(8) On 28 October 1997, the Telstra Group acquired 100 per cent of the equity of WorldCorp Holdings (S) Pte Ltd and its wholly owned subsidiary WorldCorp Publishing Pte Ltd for $4 million. These entities have been consolidated in accordance with AASB 1024.

(9) Telstra ESOP Trustee Pty Ltd was incorporated on 23 September 1997, Telstra Pay TV Investments Pty Ltd was incorporated on 18 August 1997, Telstra India (Private) Limited was incorporated on 11 September 1997 and Telstra Singapore Pte Ltd was incorporated on 19 May 1998. All of these entities have been consolidated in accordance with AASB 1024.

(10) On 1 December 1997, the Telstra Entity acquired 52.5 per cent of the equity of Atlas Travel Technologies Pty Ltd and its wholly owned subsidiaries Atlas Travel Technologies Inc., Moneydirect International Limited, Moneydirect Pty Ltd and Moneydirect Limited for $13 million. These entities have been consolidated in accordance with AASB 1024.

(11) The Telstra Group owns 40 per cent of the issued capital of Telstra Vishesh Communications Limited, 50 per cent of the issued capital of Telecom Australia (Saudi) Co. Ltd and 49 per cent of the issued capital of Modi Telstra (Private) Limited. The Telstra Group can exercise control over the Boards of Directors of these entities in perpetuity, and therefore these entities have been consolidated in accordance with AASB 1024.

(12) In August 1997 the Telstra Group no longer had control of Satel, therefore the company was deconsolidated from the Telstra Group's financial statements. The investment has not been classified as an associated entity as the Telstra Group does not have significant influence over Satel.

(13) Dividends received by the Telstra Entity during the year ended 30 June 1998 were Lawpoint Pty Ltd $1 million (1997: $0.424 million), Telstra Technologies Pty Ltd $Nil (1997: $7 million), Telstra Media Holdings Pty Ltd $8 million (1997: $Nil) and Pacific Access Pty Ltd $30 million (1997: $26 million during which time Pacific Access Pty Ltd was an associated entity).

(14) Companies not audited by the Auditor-General.

Notes to and forming part of the Financial Statements (Continued)

23. Investments in Associated Entities and Partnerships

(i) Associated Entities

Telstra Group's investment in associated entities are as follows:

Name of Associated Entity	Principal Activities	Ownership Interest		Telstra Group's Carrying Amount of Investment **		Telstra Entity's Carrying Amount of Investment #	
		As At 30 June		As At 30 June		As At 30 June	
		1998	1997	**1998**	1997	**1998**	1997
		%	%	**$m**	$m	**$m**	$m
Telecom Services Kiribati Limited (incorporated in Kiribati) (a) (2)	Telecommunications services	**49.0**	49.0	**1**	1	**-**	-
Telstra Hewlett-Packard (R&D) Pty Ltd (b) (1) *	Computer services	**50.0**	50.0	**-**	-	**-**	-
P.T. Mitra Global Telekomunikasi Indonesia (incorporated in Indonesia) (c) (1)	Telecommunications services	**20.0**	20.0	**-**	58	**-**	-
Customer Services Pty Ltd (1)	Customer services	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Management Pty Ltd (1)	Management services	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Cable Television Pty Ltd (1) (3)	Pay television	**80.0**	80.0	**-**	-	**-**	-
Advantra Pty Ltd (1) (4)	Network services	**50.0**	-	**-**	-	**-**	-
IBM Global Services Australia Limited (c) (2) (5)	Information technology services	**26.0**	-	**5**	-	**-**	-
Stellar Call Centres Pty Ltd (1) (6) *	Call centre services and solutions	**50.0**	-	**-**	-	**-**	-
Telstra Super Pty Ltd (1) (7) *	Superannuation trustee	**100.0**	100.0	**-**	-	**-**	-
OTC Super Pty Ltd (1) (7) *	Superannuation trustee	**-**	100.0	**-**	-	**-**	-
			Note 9	**6**	59	**-**	-

* Direct Associates of the Telstra Entity.

** The 30 June 1998 amounts represent equity accounted consolidated carrying amounts. The 30 June 1997 amounts represent the carrying amount of the investments at cost (refer Note 1.9(b) for details of the change in accounting policy).

The Telstra Entity's carrying amounts for both 30 June 1998 and 30 June 1997 are valued at cost.

Unless otherwise indicated, all associates have a balance date of 30 June. Accounts prepared as at 30 June are used for equity accounting purposes.

(a) Balance date is 31 March.
(b) Balance date is 31 October.
(c) Balance date is 31 December.

Notes to and forming part of the Financial Statements (Continued)

23. Investments in Associated Entities and Partnerships (Continued)

(i) Associated Entities (Continued)

(1) Investment amounts not disclosed when rounded to nearest million dollars are:

	Carrying Amount of Investment			
	Telstra Group		Telstra Entity	
	Equity	Cost	Cost	
	As At 30 June		As At 30 June	
	1998	1997	**1998**	1997
	$	$	**$**	$
Telstra Hewlett-Packard (R&D) Pty Ltd	**1**	1	**1**	1
P.T. Mitra Global Telekomunikasi Indonesia	*	-	**-**	-
Customer Services Pty Ltd	*	1	**-**	-
FOXTEL Management Pty Ltd	**1**	1	**-**	-
FOXTEL Cable Television Pty Ltd	*	8	**-**	-
Advantra Pty Ltd	*	-	**-**	-
Stellar Call Centres Pty Ltd	**250,001**	-	**250,001**	-
Telstra Super Pty Ltd	*	2	**2**	2
OTC Super Pty Ltd	**-**	-	**-**	2

* Equity accounted amount of investment is suspended and the investment recorded at zero due to losses incurred by the associated entities or as a result of writing down the equity accounted investment to zero.

(2) Dividends received by the Telstra Group from Telecom Services Kiribati Limited were $0.323 million (1997: $0.356 million) and from IBMGSA were $8 million (1997: $Nil) for the year ended 30 June 1998.

(3) Telstra owns 80 per cent of the share capital of FOXTEL Cable Television Pty Ltd. This entity is disclosed as an associate as the outside equity shareholders have participating rights that preclude the Telstra Entity from dominating the decision making of the Board of Directors.

(4) On 24 July 1997, the Telstra Group acquired a 50 per cent equity interest in Advantra Pty Ltd, a network services joint venture company. The cost of the investment was $1,000 and the Telstra Group has significant influence over Advantra Pty Ltd.

(5) On 24 July 1997, the Telstra Group acquired a 26 per cent equity interest in IBMGSA, an information technology services company. The cost of the investment was $78 and the Telstra Group has significant influence over IBMGSA.

(6) On 13 May 1998, the Telstra Entity acquired a 50 per cent equity interest in Stellar Call Centres Pty Ltd (Stellar), a newly incorporated joint venture company which will provide call centre and ancillary services and solutions to markets in the Australian and Asia-Pacific region. The cost of the investment was $250,001 and the Telstra Entity has significant influence over Stellar.

(7) The Telstra Entity owns 100 per cent of the issued share capital of Telstra Super Pty Ltd (the Trustee for the Telstra Superannuation Scheme) and in accordance with AASB 1024 Telstra Super Pty Ltd is not consolidated, as the Telstra Entity does not have control over the Board of Directors due to equal representation with employee representatives. Prior to 16 April 1998, the Telstra Entity owned 100 per cent of the issued share capital of OTC Super Pty Ltd (the Trustee for the Telstra Superannuation Scheme No.1 which ceased to exist on 1 July 1997). OTC Super Pty Ltd was not consolidated as the Telstra Entity did not have control over the Board of Directors due to equal representation with employee representatives. On 16 April 1998, OTC Super Pty Ltd was deregistered as an incorporated company and ceased to exist on that date.

Equity Accounted Information

Included in the consolidated accounts of Telstra at 30 June 1998 are:

(a) retained profits of $1 million (1997: $Nil) relating to the Telstra Group's share of its associates' net profit after income tax expense and equity accounting investment writedowns;

(b) a foreign currency translation reserve balance of $47 million debit (1997: $Nil) relating to the Telstra Group's share of its associates' foreign currency translation reserve; and

(c) a general reserve balance of $1 million (1997: $Nil) relating to the Telstra Group's share of its associates' general reserve.

Notes to and forming part of the Financial Statements (Continued)

23. Investments in Associated Entities and Partnerships (Continued)

Equity Accounted Information (Continued)

The movement in the consolidated equity accounted amount of investments for Telstra can be summarised as follows:

	Telstra Group Year Ended 30 June 1998 $m
Cost of investment in associates at 30 June 1997	59
Share of associates' operating profits/(losses) before income tax expense	23
Share of associates' income tax expense attributable to operating profit	(9)
Share of associates' operating profit after income tax expense (Note 2)	14
Less: dividends received from associates	(8)
Less: share of associates' foreign currency translation reserve	(47)
Add: share of associates' general reserve	1
Add: new investments in associates during the year	-
Less: writedown of equity accounted investment to recoverable amount	(13)
Equity accounted carrying amount at end of financial year (Note 9)	6
Share of associates' contingent liabilities (refer below)	18
Share of associates' capital commitments contracted for	36
Share of associates' other expenditure commitments contracted for (other than the supply of inventories)	207
Summarised presentation of the aggregated recognised amounts of the Telstra Group's share of all associates' assets, liabilities and net profit after income tax expense of associates (Telstra Group's share):	
Net profit after income tax expense	14
Assets	151
Liabilities	138

Notes to and forming part of the Financial Statements (Continued)

23. Investments in Associated Entities and Partnerships (Continued)

(i) Associated Entities (Continued)

Equity Accounted Information (Continued)

Share of associates' contingent liabilities (refer above)

FOXTEL Management Pty Limited, FOXTEL Cable Television Pty Limited and Customer Services Pty Limited (associated entities of the Telstra Group) entered into agreements on 25 February 1998 to jointly and severally guarantee the due and punctual performance of the FOXTEL Partnership, or any of its partners, of obligations under pay television programming agreements with various parties. Refer Note 19(d) and Note 20 for further details relating to this obligation.

The amount of $18 million relates to Telstra Group's equity accounted indirect share of IBM Global Services Australia Limited's fully drawn down bank guarantee facilities.

	Telstra Group		Telstra Entity	
	As At 30 June		As At 30 June	
	1998	1997	**1998**	1997
	$m	$m	**$m**	$m
(ii) Investment in Partnerships				
FOXTEL Partnerships (a)	**65**	56	**-**	-
WorldPartners Company (b)	**33**	-	**-**	-
Note 9	**98**	56	**-**	-

(a) At 30 June 1998, the Telstra Group had a 50 per cent investment (1997: 50 per cent) in the FOXTEL Television Partnership and the FOXTEL Partnership whose principal activities are pay television services. The Telstra Group has contributed $92 million (1997: $129 million) in capital to the partnerships for the year ended 30 June 1998. The Directors consider the carrying amount of the investment in the FOXTEL Television Partnership and the FOXTEL Partnership approximates net fair value.

The partnerships do not supply the Telstra Group with products or services. The Telstra Group does however, provide products and services to the partnerships. The amounts received by the Telstra Group are included in Note 29.

(b) On 17 June 1998, the Telstra Group acquired a 10 per cent interest in the WorldPartners Company, a partnership that provides a clearing house function for services operated on infrastructure owned by member companies, for $33 million (US$20 million). The Telstra Group's investment is largely protected under the terms of the purchase in the event that the partnership is wound up prior to 31 December 1999.

24. Segment Information

(a) Industry Segment

The Telstra Group operates predominantly in the telecommunications industry which comprises more than 90 per cent of total consolidated operating revenue, operating profit before income tax expense, and net assets.

(b) Geographical Segment

The Telstra Group operates predominantly in Australia and is therefore one geographical area for reporting purposes. Overseas business operations do not form a material component of the consolidated operations.

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group		Telstra Entity	
	Year Ended 30 June		Year Ended 30 June	
	1998	1997	**1998**	1997
	$m	$m	**$m**	$m
25. Directors' Remuneration				
Income paid or payable or otherwise made available to:				
Directors of the parent entity from the Telstra Entity or related parties (i) (ii)			**2.242**	1.916
Directors of entities in the economic entity from corporations of which they are Directors or related parties or entities controlled by the Telstra Entity (i) (ii) (iii)	**2.889**	10.033		
The number of Directors of the Telstra Entity included in these figures are shown below in their relevant income bands:				
			No.	No.
$0 - $9,999			**-**	3
$10,000 - $19,999			**-**	5
$30,000 - $39,999			**-**	4
$40,000 - $49,999			**-**	3
$50,000 - $59,999			**-**	1
$60,000 - $69,999			**7**	-
$70,000 - $79,999			**1**	-
$100,000 - $109,999			**1**	-
$110,000 - $119,999			**-**	1
$160,000 - $169,999			**1**	-
$1,410,000 - $1,419,999			**1**	1

(i) Directors' remuneration also includes employer contributions to superannuation funds.

(ii) Directors' remuneration for the year ended 30 June 1998 includes an amount of $240,000 (in total) paid to the Telstra Entity Directors in recognition of their additional workload and responsibilities in the lead up to the one-third privatisation of the Telstra Entity. This amount is included in the bands noted above.

(iii) During the year ended 30 June 1998, the Telstra Group changed the method of disclosing remuneration of Directors of controlled entities. Previously, the total remuneration of Telstra Entity employees who were Directors of controlled entities was included in Directors' Remuneration even where their prime job function was as a Telstra Entity employee. The disclosure has been changed to include as Directors' Remuneration only those Telstra Entity employees who have been paid a Director's fee by the controlled entity for performing their duties as a Director. If this form of disclosure was made as at 30 June 1997, the amount of remuneration disclosed would have been $2.471 million.

Notes to and forming part of the Financial Statements (Continued)

26. Executives' Remuneration

An executive officer is a person who, as a member of the Telstra Group senior management team, is involved in the strategic direction and operational management of the Telstra Group. This includes the Chief Executive Officer (CEO), those who report direct to him and the next level of executives who have a direct reporting relationship to the CEO's direct reports.

Income received or receivable by Australian based executive officers whose income is $100,000 or more from:

	Telstra Group Year Ended 30 June		Telstra Entity Year Ended 30 June	
	1998	1997	**1998**	1997
	$m	$m	**$m**	$m
- the Telstra Entity and related parties (i)			**26.261**	23.122
- entities in the economic entity and their related parties (i)	**31.492**	26.893		

The number of Australian based executive officers whose income is $100,000 or more are shown below in their relevant income bands:

	No.	No.	**No.**	No.
$100,000 - $109,999	**1**	8	**1**	1
$110,000 - $119,999	**2**	3	**-**	-
$120,000 - $129,999	**3**	4	**2**	2
$130,000 - $139,999	**4**	8	**4**	6
$140,000 - $149,999	**5**	2	**2**	2
$150,000 - $159,999	**4**	1	**3**	1
$160,000 - $169,999	**3**	2	**2**	1
$170,000 - $179,999	**4**	5	**2**	4
$180,000 - $189,999	**4**	3	**2**	2
$190,000 - $199,999	**3**	2	**2**	2
$200,000 - $209,999	**4**	3	**1**	2
$210,000 - $219,999	**8**	3	**4**	3
$220,000 - $229,999	**3**	8	**3**	8
$230,000 - $239,999	**4**	2	**4**	2
$240,000 - $249,999	**5**	2	**4**	2
$250,000 - $259,999	**4**	-	**4**	-
$260,000 - $269,999	**2**	2	**2**	2
$270,000 - $279,999	**1**	3	**1**	3
$280,000 - $289,999	**3**	3	**3**	3
$290,000 - $299,999	**3**	2	**3**	2
$310,000 - $319,999	**2**	3	**1**	3
$330,000 - $339,999	**3**	2	**2**	2
$340,000 - $349,999	**-**	2	**-**	2
$350,000 - $359,999	**-**	1	**-**	1
$360,000 - $369,999	**1**	2	**1**	2
$370,000 - $379,999	**3**	-	**3**	-
$380,000 - $389,999	**2**	-	**2**	-
$390,000 - $399,999	**4**	-	**4**	-

(Table continued over page)

Notes to and forming part of the Financial Statements (Continued)

26. Executives' Remuneration (Continued)

	Telstra Group Year Ended 30 June		Telstra Entity Year Ended 30 June	
	1998	1997	**1998**	1997
	No.	No.	**No.**	No.
$400,000 - $409,999	**2**	-	**1**	-
$410,000 - $419,999	**-**	2	**-**	1
$420,000 - $429,999	**2**	-	**1**	-
$430,000 - $439,999	**-**	2	**-**	2
$450,000 - $459,999	**2**	1	**2**	1
$460,000 - $469,999	**-**	1	**-**	1
$470,000 - $479,999	**-**	1	**-**	-
$480,000 - $489,999	**2**	-	**2**	-
$490,000 - $499,999	**-**	1	**-**	1
$500,000 - $509,999	**1**	-	**1**	-
$510,000 - $519,999	**1**	-	**1**	-
$530,000 - $539,999	**2**	-	**2**	-
$540,000 - $549,999	**-**	1	**-**	1
$550,000 - $559,999	**-**	1	**-**	-
$590,000 - $599,999	**-**	1	**-**	1
$620,000 - $629,999	**-**	1	**-**	1
$630,000 - $639,999	**1**	-	**1**	-
$640,000 - $649,999	**2**	-	**2**	-
$650,000 - $659,999	**1**	1	**1**	1
$660,000 - $669,999	**1**	-	**1**	-
$680,000 - $689,999	**-**	1	**-**	1
$710,000 - $719,999	**-**	1	**-**	1
$760,000 - $769,999	**-**	1	**-**	1
$780,000 - $789,999	**1**	-	**1**	-
$920,000 - $929,999	**1**	-	**1**	-
$1,140,000 - $1,149,999 (ii)	**-**	1	**-**	1
$1,410,000 - $1,419,999	**1**	1	**1**	1

(i) In addition to base salary, management incentive and non-cash benefits (including notional interest charges for the interest free employee share loans provided by the Telstra Entity under the Telstra Employee Share Ownership Plan), disclosed income includes superannuation and retirement/redundancy payments totalling $4.102 million (1997: $5.092 million) for the Telstra Group and $3.436 million (1997: $4.685 million) for the Telstra Entity.

(ii) This amount mainly relates to a redundancy.

(iii) Compensation for Telstra Group executives (including those executives in controlled entities) as stated, includes payments resulting from two incentive plans. The Management Incentive Plan (MIP) is an annual plan open to all executives in the Telstra Group. The amount at risk (target incentive) varies between 10% and 22% of the total remuneration package depending on the executive's role. The plan is based on performance against set targets for Corporate, Business Unit and individual measures. The measures include financial, customer service and individual measures that support the Telstra Group's key business objectives. Before any MIP is payable a certain threshold must be reached, according to the predefined measures. The plan also provides that payments are capped.

Selected senior executives who contribute significantly to the future long term profitability and success of the Telstra Group also participate in a Long Term Incentive Plan (LTI). At target, the LTI comprises 16% to 19% of the total remuneration package depending on the executive's level. Any payment made under this plan depends on the achievement of Return on Investment targets over a three year period. The plan, which began in 1994, also includes an annual payment based on the dividend declared in respect of earnings.

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group			Telstra Entity	
	Year Ended 30 June			Year Ended 30 June	
	1998	1997	1996	**1998**	1997
	$m	$m	$m	**$m**	$m
27. Auditors' Remuneration					
Amounts received, or due and receivable, by the Australian statutory auditor of the Telstra Entity for:					
Auditing and reviewing the financial statements (i).	**4.741**	3.896	3.612	**4.404**	3.601
Other services (i)	**0.692**	0.363	0.342	**0.676**	0.363
Amounts received, or due and receivable, by auditors other than the Australian statutory auditor of the Telstra Entity for:					
Auditing and reviewing the financial statements	**0.243**	0.247	0.196	**0.023**	-

(i) The audit and other services provided by the Australian statutory auditor have been subcontracted to Price Waterhouse. In addition, the Telstra Group has engaged Price Waterhouse for other services during the year ended 30 June 1998 and amounts paid for these services were approximately $10.536 million (1997: $6.615 million).

28. Events Subsequent To Balance Date

Superannuation contributions

As outlined in Note 21 "Superannuation Commitments", the Telstra Entity's past contributions to the CSS has resulted in the Telstra Entity being credited with a surplus in the notional fund of the CSS. The Commonwealth has indicated that repatriation of part of that surplus to the TSS will be permitted where the surplus is greater than 15 per cent of the sum of the employer financed benefits (past and future service) for the Telstra Entity's existing CSS members and outstanding deferred transfer value payments for ex-CSS members who transferred to the TSS. The actuarial valuation as at 30 June 1997 confirmed that the CSS surplus was greater than 15 per cent and the Telstra Entity is in discussions with the Commonwealth regarding the repatriation of this surplus to the TSS.

On the assumption that the CSS surplus, net of 15 per cent contributions tax payable on its transfer into the TSS, is available to increase the assets of the TSS, the actuary has recommended that the Telstra Entity cease defined benefit contributions to the TSS (other than the additional contributions of $121 million per annum that the Telstra Entity is committed to contribute to the TSS over the next 13 years) for the 3 year period 1 July 1998 to 30 June 2001. Based on that advice, the Telstra Entity Board of Directors (subsequent to year end) has agreed that the employer contribution rate to the TSS will be reduced to nil for the next three years, subject to a satisfactory outcome from the above-mentioned discussions and a consequential response from the Minister for Finance and Administration.

Notes to and forming part of the Financial Statements (Continued)

29. Related Party Transactions

Controlling Entity

The Commonwealth is the ultimate chief and controlling entity of the Telstra Group. Telstra Corporation Limited is the chief entity in the group comprising the Telstra Entity and its controlled entities.

The Telstra Group supplies telecommunications services to, and acquires other services from, the Commonwealth, its Departments of State, trading and other agencies. All such transactions are made within normal customer/supplier relationships on terms and conditions no more favourable than those available to other customers or suppliers and there are no exclusive rights to supply any such services. Services provided to any one governmental department or agency or in total do not represent a significant component of the Telstra Group's operating revenues. For these reasons the financial statements do not disclose transactions relating to the purchase and sale of goods and services from/to the Commonwealth, its Departments of State, trading and other agencies.

Directors of the Telstra Entity

The names of each person who held office as a Director of the Telstra Entity for the whole of the year ended 30 June 1998 were Messrs David M. Hoare, W. Frank Blount, Michael H. Codd, Christopher I. Roberts, Elizabeth A. Nosworthy, N. Ross Adler, Anthony J. Clark, John T. Ralph, John W. Stocker and Stephen W. Vizard. Malcolm G. Irving was appointed as a Director of the Telstra Entity on 10 July 1997.

Details of Directors' remuneration, superannuation and retirement payments are set out in Note 25.

Loans to Directors of the Telstra Entity

No Director of the Telstra Entity had a loan with the Telstra Entity or any of its controlled entities at any time during the years ended 30 June 1998, 1997 and 1996, other than W. Frank Blount who was provided with a loan as part of his participation in the Telstra Employee Share Ownership Plan (TESOP). The loan was provided interest free and on the same conditions as all other eligible employees who participated in the TESOP. Further details of the TESOP are contained in Note 17. The loan provided was $3,899 (for 2,000 shares) and the amount repaid was $141.

Other Transactions with Directors of the Telstra Entity and their Director Related Entities

Director related entities of Ms E.A. Nosworthy, Bay Technologies Pty Ltd and Bay Technologies Communications Pty Ltd, supplied software and associated support and maintenance services to the Telstra Group during the year on normal commercial terms and conditions amounting to $Nil (1997: $2,000; 1996: $1,692,000) and $Nil (1997: $56,000; 1996: $Nil) respectively. Ms Nosworthy has no involvement or interest in Bay Technologies Pty Ltd and Bay Technologies Communications Pty Ltd.

Mr A.J. Clark is a partner in the accounting firm of KPMG which provided professional services to the Telstra Group during the year on normal terms and conditions.

The following disclosures made in relation to Mr S. Vizard and his Director related entities have arisen from agreements entered/negotiations that commenced prior to Mr S. Vizard becoming a Director of Telstra Corporation Limited:

(i) During the year ended 30 June 1998, a controlled entity of the Telstra Group has provided funding of $300,000 (1997: $100,000) by way of an advance to Artsim (a Director related entity of Mr S. Vizard) to develop an internet on-line service providing management and information services. The advance is on normal commercial terms and conditions.

(ii) Artist Services Pty Ltd, Artist Services Cable Pty Ltd and Artist Services Cable Management Pty Ltd are Director related entities of Mr S. Vizard in which he has a minority indirectly owned interest. These entities are involved in joint ventures with FOXTEL to provide pay television programming. Each party to the joint ventures has contributed capital in proportion to its equity interests. In accordance with the joint venture arrangements, the joint ventures have incurred progamming licence and production fees to the Director related entities during the year ended 30 June 1998. All of the relevant transactions are on normal commercial terms and conditions.

Each of the Directors of the Telstra Entity have telecommunications services transactions with the Telstra Group which are not material and are domestic in nature. Director related entities also have telecommunications services which are on normal commercial terms and conditions.

Directors of the Telstra Entity Interests in Shares of the Telstra Entity

No Director of the Telstra Entity had an interest in the share capital of the Telstra Entity as at 30 June 1997. As at 30 June 1998, the Directors and their related parties had interests in the share capital of the Telstra Entity (acquired during the year ended 30 June 1998) as follows:

	Telstra Corporation Limited - Instalment Receipts (a) (b)		
	Direct	**Indirect**	**Total**
D.M. Hoare	11,720	16,000	27,720
J.T. Ralph	600	40,000	40,600
W.F. Blount (c)	12,700	-	12,700
N.R. Adler	8,000	42,000	50,000
A.J. Clark	8,000	40,000	48,000
M.H. Codd	8,000	-	8,000
M.G. Irving	8,000	13,000	21,000
E.A. Nosworthy	5,600	11,000	16,600
C.I. Roberts	16,000	30,360	46,360
J.W. Stocker	400	32,080	32,480
S.W. Vizard	-	16,000	16,000

Notes to and forming part of the Financial Statements (Continued)

29. Related Party Transactions (Continued)

Directors of the Telstra Entity Interests in Shares of the Telstra Entity (Continued)

(a) Instalment Receipts evidence beneficial ownership of an ordinary share subject to payment of the final instalment on or before 17 November 1998.

(b) Guidelines for Dealings by Directors in Shares (including Instalment Receipts)

The restrictions imposed by law on dealings by Directors in the securities of the Telstra Entity have been supplemented by the Board of Directors adopting guidelines which further limit such dealings by Directors, their spouses, dependent children, family companies and family trusts. The guidelines provide, that in addition to the requirement that Directors not deal in the securities of the Telstra Entity or any related body corporate when they have or may be perceived to have relevant unpublished price sensitive information, Directors are only permitted to deal within certain specified window periods. Further, the guidelines require that Directors not deal on the basis of considerations of a short term nature or by trading securities within the same " window period".

(c) Includes 2,000 shares acquired with an interest free loan plus 500 free shares under the terms of the TESOP (refer Note 17). In addition, W. Frank Blount is entitled to 200 loyalty shares obtained under the 1 for 10 loyalty offer available to all employees who participated in the public offer (refer Note 17(e)).

Directors of Controlled Entities

Each of the controlled entity Directors of the Telstra Group and their Director related entities have telecommunications services transactions with the Telstra Group which are on normal commercial terms and conditions and are trivial and domestic in nature.

Lawpoint Pty Ltd (Lawpoint) is partially owned by Alloway Investments Pty Ltd (Alloway). The Directors of Alloway are Mr E. Griffin, Sir D. Griffin and Mr A. Griffin who are also Directors of Lawpoint. Lawpoint paid a dividend during the year ended 30 June 1998 of $504,000 (1997: $579,000; 1996: $666,000) to Alloway. Lawpoint participates in other transactions with Alloway and its Directors which are on normal terms and conditions and are trivial in nature.

Ms Z. Mody, a Director of two controlled entities, has provided legal advice to controlled entities. Fees received/receivable by Ms Z. Mody are on normal terms and conditions amounting to $Nil for the year ended 30 June 1998 (1997: $70,000; 1996: $Nil).

Loans to Directors of Controlled Entities

No controlled entity Director of the Telstra Group had a loan or made a loan repayment with the Telstra Entity or any of its controlled entities at any time during the years ended 30 June 1998, 1997 and 1996, apart from the following:

During the year ended 30 June 1998, certain employees of the Telstra Group who were eligible to participate in the TESOP (refer Note 17 for further details) were also Directors of controlled entities. The Telstra Group Directors (as noted below) were provided an interest free loan to enable the purchase of shares from the Commonwealth on the same terms and conditions as all other employees eligible to participate in the TESOP. The total loan advanced to these Directors was $152,061 and loan repayments of $5,493 were made. All of the Directors listed below were provided with and made loan repayments during the year ended 30 June 1998:

P. Abery	E. F. Griffin	A. Polmear
B. Akhurst	J. Hibbard	N. F. Robertson
G. Avard	R. Holihan	L. P. Shore
K. Bradshaw	R. Horgan	D. Smith
J. Burke	A. T. Huxtable	J. V. Stanhope
D. Campbell	M. Montalto	Z. Switkowski
G. Cassidy	G. Moriarty	R. Verco
A. Cherubin	G. J. Nicholson	C. Vonwiller
B. Copp	D. R. Nicol	K. Wijeyewardene
C. B. Davis	C. Petersen	C. C. Wilkinson
G. Fidler	K. Phillips	T. Wulfse
P. Frueh	P. I. Pickering	R. Wyss
A. C. Griffin	D. Pitt	L. Yelland

Notes to and forming part of the Financial Statements (Continued)

29. Related Party Transactions (Continued)

Wholly Owned Group and Other Related Party Disclosures

Amounts receivable from and payable to entities in the wholly owned group and other related parties:

		Telstra Group As At 30 June			Telstra Entity As At 30 June	
	Note	**1998 $m**	1997 $m	1996 $m	**1998 $m**	1997 $m
Aggregate amounts receivable (including trade debtors) at balance date from:						
***Current*:**						
Wholly owned controlled entities (i)	7	**-**	-	-	**412**	847
Other controlled entities	7	**-**	-	-	**264**	278
Associated entities and partnerships		**33**	46	298	**33**	-
Non Current:						
Wholly owned controlled entities	7	**-**	-	-	**126**	98
Aggregate amounts payable (including accounts payable) at balance date to:						
***Current*:**						
Wholly owned controlled entities (i)	13	**-**	-	-	**175**	774
Other controlled entities	13	**-**	-	-	**6**	-
Associated entities and partnerships		**72**	19	11	**61**	-
Non Current:						
Wholly owned controlled entities	13	**-**	-	-	**212**	117

(i) During the year, the Telstra Entity has participated in interest free transactions with its controlled entities. As a result of these transactions, at 30 June 1998, the aggregate amounts receivable from controlled entities amounted to $379 million (1997: $845 million; 1996: $212 million) and the aggregate amounts payable to controlled entities amounted to $198 million (1997: $428 million; 1996: $166 million). The amounts payable to the wholly owned controlled entities at 30 June 1998 includes $155 million (1997: $198 million; 1996: $121 million) being consideration for the transfer of tax losses.

Notes to and forming part of the Financial Statements (Continued)

29. Related Party Transactions (Continued)

Wholly Owned Group and Other Related Party Disclosures (Continued)

During the year, communication assets were sold by the Telstra Entity to an entity in the wholly owned group at cost for $88 million (1997: $526 million; 1996: $329 million).

The Telstra Entity sold services, purchased goods and communications assets, paid fees and received dividends from, and received and paid interest to entities in the wholly owned group during the year. These transactions are in the normal course of business and are on normal commercial terms and conditions.

Included in gross construction work in progress (refer Note 13) are progress billings made by another controlled entity on normal commercial terms and conditions amounting to $Nil (1997: $Nil; 1996: $59 million).

Included in revenue received in advance is an amount of $294 million (1997: $322 million) received from a controlled entity in relation to royalties received from directory advertising which is not recorded as revenue until the directories are issued.

Included in capitalised software for the year ended 30 June 1998 is $111 million (1997: $Nil; 1996: $Nil) paid to IBMGSA. In addition, during the year ended 30 June 1998, $23 million was paid to IBMGSA for the transfer of employee entitlements and other transition costs.

		Telstra Group			Telstra Entity	
		Year Ended 30 June			Year Ended 30 June	
	Note	**1998 $m**	1997 $m	1996 $m	**1998 $m**	1997 $m
Amounts attributable to transactions with entities in the wholly owned group and other related parties						
Operating profit before income tax expense for the year includes aggregate amounts attributable to transactions in respect of:						
Interest received/receivable from:						
Wholly owned controlled entities	2	**-**	-	-	**6**	5
Associated entities		**-**	-	1	**-**	-
Borrowing costs:						
Wholly owned controlled entities	3(a)	**-**	-	-	**9**	7
Dividends received/receivable from:						
Wholly owned controlled entities	2	**-**	-	-	**39**	7
Associated entities		**-**	26	14	**-**	26
Sale of goods and services to:						
Wholly owned controlled entities		**-**	-	-	**615**	475
Other controlled entities		**-**	-	-	**598**	-
Associated entities and partnerships		**91**	661	597	**31**	560
Purchase of goods and services from:						
Wholly owned controlled entities		**-**	-	-	**66**	121
Other controlled entities		**-**	-	-	**85**	4
Associated entities and partnerships		**395**	19	12	**377**	-

Notes to and forming part of the Financial Statements (Continued)

30. Earnings Per Share

	Telstra Group Year Ended 30 June		
	1998	1997	1996
	¢	¢	¢
Basic earnings per share (cents)			
- before abnormals	**23.3**	*20.0	*16.9
- after abnormals	**23.3**	*12.6	*17.9
Diluted earnings per share is the same as basic earnings per share.			
		Number (millions)	
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	**12,867**	**12,867	**12,867

* Calculated assuming share split had been made in these years. Refer to the section below *'Adjusted earnings per share for changes to share capital'* for details of these changes.

** Number of shares calculated assuming share split had been made in these years. Refer to the section below *'Adjusted earnings per share for changes to share capital'* for details of these changes.

Adjusted earnings per share for changes to share capital

On 6 August 1997, a share split was approved so that all ordinary shares issued by the Telstra Entity on this date with a par value of $1.00 each were divided into two ordinary shares with a par value of $0.50 each. The number of issued and paid up ordinary shares changed from 6,433,300,100 ordinary shares with a par value of $1.00 each, to 12,866,600,200 ordinary shares with a par value of $0.50 each.

The actual earnings per share as disclosed in the financial statements for the years ended 30 June 1997 and 1996 were 39.9 cents and 33.8 cents respectively before abnormals and 25.1 cents and 35.8 cents respectively after abnormals. These amounts were determined prior to the share split.

Adjusted earnings per share for changes in accounting policy

In addition, during the year ended 30 June 1997, the Telstra Group changed its accounting policies as disclosed in Note 3(b) as abnormal items. The effect on earnings per share of the changes in these accounting policies was an increase of 6.0 cents per share for earnings per share after abnormals to 25.1 cents per share for the year ended 30 June 1997 (calculated prior to share split).

The effect on earnings per share of the changes in accounting policies calculated after the share split would have been an increase of 3.0 cents per share for earnings per share after abnormals to 12.6 cents per share for the year ended 30 June 1997.

Notes to and forming part of the Financial Statements (Continued)

31. Additional Financial Instruments Disclosures

Derivative Financial Instruments

Objectives and Significant Terms and Conditions

Derivative financial instruments are used by the Telstra Group to hedge against risks from changes in interest rates and foreign exchange rates. Instruments used include forward foreign currency contracts, cross-currency swaps, interest rate swaps, and interest rate futures contracts. The Telstra Group does not undertake speculative trading in these instruments. All derivative transactions are undertaken to hedge the risks relating to an underlying physical position.

Because of this, the potential for loss or gain under derivative transactions arising as a result of interest rate risk, currency risk or other market risk will be substantially matched by corresponding gains or losses in the value of the underlying physical position.

Throughout this note, interest rate risk refers to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and foreign currency risk refers to the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Liquidity Risk and Credit Risk

Liquidity risk includes the risk that, as a result of liquidity requirements in the future, the Telstra Group will be forced to sell financial assets or derivative positions at a value which is below their underlying worth or may be unable to exit the positions at all, or the Telstra Group will have insufficient funds to settle a transaction on the due date.

To help counter these risks the Telstra Group generally uses derivatives that are tradeable in highly liquid markets, and has standby facilities and other funding arrangements in place, and has a liquidity policy which requires a minimum liquidity level to be maintained.

Credit risk includes the risk that a counterparty will fail to discharge its obligations under a financial instrument and cause the Telstra Group to incur a financial loss. To help counter this risk the Telstra Group ensures it does not have any significant exposure relative to approved counterparty limits, and has a conservative policy in establishing counterparty limits.

Forward Foreign Currency Contracts

The Telstra Group enters into forward foreign currency contracts to hedge the exchange rate risk on firm or anticipated purchase commitments and short term borrowings denominated in foreign currencies.

A key purpose of foreign currency hedging activities is to minimise the volatility of the Telstra Group's cash flows from purchases due to changes in exchange rates.

The Telstra Group principally hedges in the following currencies: United States Dollars, British Pounds Sterling, German Deutschemarks, and European Currency Unit.

Notes to and forming part of the Financial Statements (Continued)

31. Additional Financial Instruments Disclosures (Continued)

The settlement dates, dollar amounts to be received and contractual forward exchange rates of the Telstra Group's significant outstanding contracts at balance date are as follows:

	Telstra Group As At 30 June	
	1998	1997
	(A$ millions)	
United States Dollars		
- less than three months, at rates averaging United States Dollars $0.6341 (1997: US$0.7571)	**(11)**	45
- 3 to 12 months, at rates averaging United States Dollars $0.6427 (1997: US$0.7694)	**148**	86
- 12 to 18 months, at rates averaging United States Dollars $0.6312 (1997: US$0.7738)	**6**	20
	143	151
British Pounds Sterling		
- less than three months, at rates averaging British Pounds Sterling 0.3727 (1997: British Pounds Sterling 0.4734)	**24**	26
- 3 to 12 months, at rates averaging British Pounds Sterling 0.3729 (1997: British Pounds Sterling 0.4790)	**-**	32
	24	58
German Deutschemarks		
- less than three months, at rates averaging German Deutschemarks 1.0724 (1997: German Deutschemarks 1.3194)	**27**	31
- 3 to 12 months, at rates averaging German Deutschemarks 1.1500 (1997: German Deutschemarks 1.3194)	**-**	38
	27	69
European Currency Units		
- less than three months, at rates averaging European Currency Units 0.5504 (1997: European Currency Units 0.6839)	**34**	20
- 3 to 12 months, at rates averaging European Currency Units 0.5574 (1997: European Currency Units 0.6778)	**-**	58
	34	78

The Telstra Group has a net foreign exchange exposure on equipment, material and translation exposures, excluding borrowings, as follows:

	Telstra Group			
	Exposure before hedging As At 30 June		Exposure after hedging As At 30 June	
	1998	1997	**1998**	1997
	(A$ millions)		**(A$ millions)**	
Anticipated future transactions	**255**	226	**128**	113
Transaction exposure	**416**	649	**208**	325
Translation exposure (on offshore investments)	**(224)**	(310)	**(140)**	(253)
	447	565	**196**	185
The maturity dates of the anticipated future transactions are as follows:				
Within 1 year	**155**	155		
Within 1 - 2 years	**100**	71		
	255	226		

The hedging policy of the Telstra Group is considered to provide effective hedging for all its foreign exchange exposures.

At 30 June 1998 and 1997 the net deferred gain on hedges of anticipated foreign currency commitments is not material to the financial statements.

Notes to and forming part of the Financial Statements (Continued)

31. Additional Financial Instruments Disclosures (Continued)

Net Fair Value - Forward Foreign Currency Contracts

Valuation as at 30 June 1998

There is no material difference between the carrying value and the net fair value. The carrying value for forward currency contracts at 30 June 1998 is a $8 million gain (1997: $14 million gain).

Cross Currency Swaps and Interest Rate Swaps

The Telstra Group has borrowings denominated in foreign currencies. It is the Telstra Group's policy to hedge all currency exposure on such borrowings with foreign currency derivative transactions such as cross currency swaps and forward foreign exchange contracts.

The terms and conditions of the swaps substantially match the terms and conditions of the underlying hedged borrowings in Note 14.

The Telstra Group enters into interest rate swaps to adjust interest rate exposures on its debt portfolio, to match the ratio of fixed interest debt, to variable interest debt as required by the Telstra Group's debt management policy. The debt management policy is undertaken on a portfolio basis. The maturity of interest rate swaps matches the maturity profile of the underlying debt within the requirements of the debt management policy. Net interest receipts and payments are recognised as an adjustment to interest expense.

At 30 June 1998 and 1997 the Australian dollar interest rates varied as follows:

For cross currency swaps:		
Fixed	- 1998 7.86%	(1997: from 7.86% to 11.78%)
Variable	- 1998 from 4.94% to 5.52%	(1997: from 5.36% to 5.98%)
For interest rate swaps:		
Fixed	- 1998 from 5.07% to 13.58%	(1997: from 5.59% to 14.27%)
Variable	- 1998 from 4.84% to 5.97%	(1997: from 5.15% to 6.77%)

Net Fair Value - Interest Rate and Cross Currency Swaps

Derivative transactions are only used for the purposes of managing financial exposures that arise from underlying business positions. Therefore net market values should not be assessed in isolation. Their overall impact should take account of the underlying exposures being hedged. For further information on the carrying value and net market value on hedged positions refer Note 14.

Interest Rate Swaps

The notional amounts of interest rate swaps shown below represent the face values of such transactions entered into by the Telstra Group at balance date. The notional amounts do not represent amounts exchanged by the parties to the contract, and are not a true reflection of the credit risk and are therefore not recorded on the balance sheet.

The remaining terms, net notional principal amounts, and net fair value amounts of the Telstra Group's outstanding interest rate swaps at balance date are:

	Telstra Group					
	Net Notional Principal Amount (a)		**Net Fair Value**		**Carrying Value (b)**	
	As At 30 June					
	1998	1997	**1998**	1997	**1998**	1997
	(A$ millions)					
Interest rate swaps:						
- Less than one year	**83**	39	**10**	9	**6**	3
- One to five years	**(445)**	64	**28**	43	**2**	7
- Greater than five years	**(2,000)**	(284)	**(82)**	53	**(7)**	3
	(2,362)	(181)	**(44)**	105	**1**	13

(a) At 30 June 1998 and 30 June 1997, the Telstra Group has a net interest rate swap position of pay fixed.

(b) The carrying value represents the accrued interest on interest rate swaps.

Notes to and forming part of the Financial Statements (Continued)

31. Additional Financial Instruments Disclosures (Continued)

Interest Rate Swaps (Continued)

The gross notional principal of interest rate swaps was $6,048 million and $4,616 million for the years ended 30 June 1998 and 1997 respectively. The gross notional amount of interest rate swaps is significantly larger than the net effective position shown since it is the gross sum of all swaps over time, many of which have been undertaken to modify positions at a number of stages as volumes and positions have changed. This approach is undertaken to manage the Telstra Group's fixed to variable ratio on net debt, where net debt is defined as financial liabilities less financial assets.

Cross Currency Swaps

The remaining terms, net principal amounts, and net fair value amounts of the Telstra Group's outstanding cross currency swaps at balance date are:

	Telstra Group					
	Net Notional Principal Amount		Net Fair Value		Carrying Value	
	As At 30 June					
	1998	1997	**1998**	1997	**1998**	1997
	(A$ millions)					
Cross currency swaps:						
- Less than one year	**-**	194	**-**	42	**-**	40
- One to five years	**120**	-	**15**	-	**(2)**	-
- Greater than five years	**2,186**	1,465	**414**	(64)	**277**	(39)
	2,306	1,659	**429**	(22)	**275**	1

For cross currency and interest rate swaps where the carrying value is in excess of net fair value at balance date no writedown to net fair value has been made since these derivatives act as hedges of underlying physical positions.

Interest Rate Futures

From time to time, the Telstra Group uses interest rate futures contracts to adjust interest exposures on its debt portfolio to match the ratio of fixed interest debt to variable interest debt as required by the Telstra Group's policy. These contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price and are settled in cash.

No futures contracts were outstanding at either 30 June 1998 or 30 June 1997.

Notes to and forming part of the Financial Statements (Continued)

31. Additional Financial Instruments Disclosures (Continued)

Interest Rate Risk

The Telstra Group's exposure to interest rate risk, repricing maturities and the effective interest rates on financial instruments at balance date are:

	Telstra Group As At 30 June 1998						
	Weighted Average Effective Interest Rate	Interest Rate					
		Floating	Fixed maturities			Non interest bearing	Total
			1 yr or less	2 to 5 yrs	over 5 yrs		
	%	($ millions)					
Assets							
Cash	5.24	799	-	-	-	154	953
Trade debtors and accrued revenue	-	-	-	-	-	3,045	3,045
Bank deposits, bills of exchange and promissory notes	4.44	-	19	55	16	-	90
Share loan to employees	-	-	-	-	-	206	206
Loans to associated entities	9.50	-	5	-	-	-	5
Other receivables	6.30	-	-	10	-	63	73
Investments	-	-	-	-	-	222	222
Total financial assets as at 30 June 1998		799	24	65	16	3,690	4,594
Liabilities							
Trade creditors and accrued expenses	-	-	-	-	-	1,570	1,570
Other creditors	-	-	-	-	-	830	830
Amounts owed to the Telstra Superannuation Scheme	11.80	-	121	151	513	-	785
Bank overdraft	18.00	5	-	-	-	-	5
Bills of exchange and promissory notes	5.55	2,503	-	-	-	-	2,503
Bank loans	15.95	26	-	-	-	-	26
Telecom/Telstra bonds	10.78	-	349	1,244	1,094	-	2,687
Other loans	5.69	-	-	62	2,475	-	2,537
Cross currency swaps	-	1,866	-	(116)	(1,989)	-	(239)
Finance lease liabilities	5.49	-	73	114	16	-	203
Dividends payable	-	-	-	-	-	901	901
Taxation	-	-	-	-	-	474	474
Interest rate swaps	-	(2,362)	(83)	445	2,000	-	-
Total financial liabilities as at 30 June 1998		2,038	460	1,900	4,109	3,775	12,282
Net financial assets/(liabilities) as at 30 June 1998		(1,239)	(436)	(1,835)	(4,093)	(85)	(7,688)

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Notes to and forming part of the Financial Statements (Continued)

31. Additional Financial Instruments Disclosures (Continued)

Interest Rate Risk (Continued)

	Telstra Group As At 30 June 1997						
	Weighted Average Effective Interest Rate	Interest Rate					
		Floating	Fixed maturities			Non interest bearing	Total	Note
			1 yr or less	2 to 5 yrs	over 5 yrs			
	%	($ millions)						
Assets								
Cash	5.62	588	-	-	-	154	742	6
Trade debtors and accrued revenue	-	-	-	-	-	3,238	3,238	7
Bank deposits, bills of exchange and promissory notes	5.08	95	-	74	24	-	193	7
Other receivables	6.30	-	-	10	-	53	63	7
Investments	-	-	-	-	-	154	154	9
Total financial assets as at 30 June 1997		683	-	84	24	3,599	4,390	
Liabilities								
Trade creditors and accrued expenses	-	-	-	-	-	1,625	1,625	13
Other creditors	-	-	-	-	-	940	940	13
Amounts owed to the Telstra Superannuation Scheme	11.80	-	121	189	500	-	810	13
Bank overdraft	8.75	12	-	-	-	-	12	14
Bills of exchange and promissory notes	5.62	159	-	-	-	-	159	14
Bank loans	5.55	3,017	-	-	-	-	3,017	14
Telecom/Telstra bonds	10.71	-	178	992	1,684	-	2,854	14
Other loans	6.82	-	135	9	1,497	-	1,641	14
Cross currency swaps	-	1,020	(41)	-	(954)	-	25	14
Finance lease liabilities	5.97	-	72	175	26	-	273	14
Dividends payable	-	-	-	-	-	521	521	15
Taxation	-	-	-	-	-	432	432	15
Interest rate swaps	-	(181)	(39)	(64)	284	-	-	-
Total financial liabilities as at 30 June 1997		4,027	426	1,301	3,037	3,518	12,309	
Net financial assets/(liabilities) as at 30 June 1997		(3,344)	(426)	(1,217)	(3,013)	81	(7,919)	

The effective yield on the Telstra Group's net debt at 30 June 1998 and 30 June 1997 is 7.8 per cent and 7.5 per cent respectively, after taking into account the impact of interest rate swaps and cross currency swaps. The yield of 7.5 per cent at 30 June 1997 incorporated the effect of adding $3,000 million of new debt drawn down on 30 June 1997 (refer Note 14(iii)).

Notes to and forming part of the Financial Statements (Continued)

31. Additional Financial Instruments Disclosures (Continued)

Credit Risk

The Telstra Group obtains collateral on all money market deposits except those deposited with licensed banks.

The carrying amounts of financial assets included in the consolidated balance sheet represent the Telstra Group's maximum exposure to credit risk in relation to these assets. Where entities have a right of set-off and intend to settle on a net basis, this set-off has been reflected in the financial statements in accordance with accounting standards.

Credit risk exposure value shown in the table below includes all transactions where the net fair value is favourable. For credit purposes there is only a credit risk where the counterparty would pay the economic entity in the event of a closeout. The amount derived differs from that shown in the previous table which states the net fair value after netting favourable against unfavourable transactions.

	Telstra Group	
	Net Fair Value	
	As At 30 June	
	1998	1997
	(A$ millions)	
Interest rate swaps	**167**	172
Cross currency swaps	**429**	61
Forward foreign currency contracts	**10**	14
	606	247

Credit Risk - Concentrations

The Telstra Group does not have any significant exposure to any individual counterparty. The major concentrations of credit risk that arise from the Telstra Group's financial transactions (including money market, forward foreign currency contracts, cross currency and interest rate swaps) by country of financial institution are:

	Telstra Group			
	As At 30 June			
	1998		**1997**	
	%	**(A$ millions)**	%	(A$ millions)
Australia	**32**	**1,698**	31	1,011
United States	**32**	**1,675**	36	1,166
Japan	**2**	**108**	4	128
Europe	**33**	**1,777**	23	758
Other	**1**	**33**	6	201
	100	**5,291**	100	3,264

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures

Reconciliation to US GAAP

Australian generally accepted accounting principles (AGAAP) vary in certain significant respects from generally accepted accounting principles in the United States (US GAAP). Application of US GAAP would have affected shareholders' equity as at 30 June 1998, 1997 and 1996 and operating profit after income tax expense attributable to the Telstra Entity shareholders (defined as net income throughout this Note) for each of the years in the three year period ended 30 June 1998, to the extent quantified below. A description of the material differences between AGAAP, as followed by the Telstra Group, and US GAAP are as follows:

The reconciliation of net income and shareholders' equity contained in this Note are completed on the financial statements of the Telstra Group.

(a) Property, Plant and Equipment

Revaluations

AGAAP allows property, plant and equipment assets to be revalued. Increments arising from a revaluation of a class of property, plant and equipment are made directly to an asset revaluation reserve (shareholders' equity) unless they reverse a previous revaluation decrement. Impairments (decrements) to asset values must be recorded in the profit and loss account, unless reversing a previous increment recorded in the asset revaluation reserve which is still maintained in the asset revaluation reserve. Property, plant and equipment disclosed in Note 10 includes balances at valuation which are inclusive of the respective revaluation decrement or increment after applying the accumulated depreciation against the historical cost at the time of revaluation. Revaluations of property, plant and equipment are not allowed under US GAAP. Adjustments to reduce revalued property, plant and equipment to historical cost for revaluations and impairments included in the reconciliation of shareholders' equity to US GAAP were $317 million, $271 million, $772 million for the years ended 30 June 1998, 1997 and 1996 respectively. Adjustments included in the reconciliation of net income to US GAAP for the years ended 30 June 1998, 1997 and 1996 (including the impairments noted below) were $62 million expense, $256 million income and $10 million income respectively.

US GAAP requires impairments on non current assets to be recorded as an expense. Once such impairments have been recorded, subsequent recoveries are not allowed. Statement of Financial Accounting Standards No.121 (SFAS 121) "Accounting for the impairment on Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" requires that assets to be disposed of be valued at the lower of carrying amount or fair value less costs to sell. Furthermore, companies are required to review long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Telstra Group recorded a $16 million impairment in the profit and loss account under AGAAP during the year ended 30 June 1998 (refer Note 3(a)). In the year ended 30 June 1997, the Telstra Group has recorded an impairment in the profit and loss account relating to its broadband network (refer Note 3(b)). This impairment loss was recognised under AGAAP as the discounted future cash flows were less than the carrying value of the asset. The determination of the impairment loss recognised under AGAAP was not in accordance with US GAAP. SFAS 121 only allows an impairment loss to be recognised when the future cash flows (undiscounted and without interest charges) are less than the carrying amount of the asset. If such cash flows are less than the carrying value of the asset, the asset is adjusted to fair value. The future undiscounted cash flows of the broadband network assets were in excess of the carrying amount of the asset, accordingly the impairment loss recognised in the year ended 30 June 1997 for AGAAP of $342 million was adjusted in the reconciliation of net income and shareholders' equity to US GAAP. In the year ended 30 June 1998 additional depreciation on the broadband asset of $59 million has been recognised in the reconciliation of net income to US GAAP. The Telstra Group did not record any impairment to the profit and loss account under AGAAP during the year ended 30 June 1996.

Additional impairment losses for US GAAP were $10 million (excluding $16 million for AGAAP as noted above), $Nil and $4 million for the years ended 30 June 1998, 1997 and 1996 respectively.

Profits/(Losses) on Disposal

The AGAAP accounting for revaluing property and certain investments also causes differences in reported profits or losses on the sale of revalued properties and investments as the reported profit or loss is based on consideration received, less revalued net book value. For US GAAP purposes, profits or losses are determined as the difference between the consideration and net book value based on historical depreciated cost and would be reported as profits or losses in the year realised. These differences have been disclosed in the reconciliations of net income and shareholders' equity to US GAAP.

Depreciation Expense

Depreciation expense for AGAAP and US GAAP has been calculated using the straight line method of depreciation. Under AGAAP depreciation expense is based on the carrying value of the asset rather than the historical cost of the asset and therefore the depreciation expense is higher in the year assets are revalued upwards and in subsequent years. Since US GAAP does not permit assets to be valued above historical cost, the depreciation charge has been adjusted to reflect historical cost depreciation in the reconciliations of net income and shareholders' equity to US GAAP.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

(a) Property, Plant and Equipment (Continued)

Capitalisation of Indirect Overheads

In order to further align its accounting policies with common practice in the telecommunications industry, the Telstra Group changed its accounting policies in relation to the capitalisation of indirect overheads and interest during the year ended 30 June 1997 and applied these changes retrospectively from 1 July 1996.

Prior to 1 July 1996 the Telstra Group capitalised overheads directly associated with the construction of its communication assets but all indirect overheads were expensed as incurred. The Telstra Group has commenced capitalising indirect overheads associated with operations and management personnel also directly involved in the construction of the Telstra Group's communication assets.

The policy prior to 1 July 1996 was not in accordance with US GAAP which requires the cost of self constructed assets to include appropriate proportions of direct and indirect overheads. To reflect the inclusion of indirect overheads in the cost of communication assets for all periods, the Telstra Group capitalised in the reconciliation of net income and shareholders' equity to US GAAP, $2,503 million and amortised $1,072 million for the years up to 30 June 1995, and capitalised $285 million and amortised $156 million for the year ended 30 June 1996, amortised $167 million for the year ended 30 June 1997 and amortised $157 million for the year ended 30 June 1998.

Capitalisation of Interest Costs

Prior to 1 July 1996, the Telstra Group expensed all interest costs as incurred. From 1 July 1996, interest costs relating to the construction of property, plant and equipment for internal use is recognised and capitalised as part of the cost of the asset. This accords with common practice of entities involved in large capital expenditure programmes. US GAAP requires interest costs incurred during the construction of property, plant and equipment to be capitalised. The US GAAP reconciliation includes adjustments arising from the application of the method prescribed by Statement of Financial Accounting Standards No.34 (SFAS 34), "Capitalisation of Interest Costs". The Telstra Group capitalised $581 million and amortised $193 million for years up to 30 June 1995, and capitalised $57 million and amortised $35 million for the year ended 30 June 1996, amortised $37 million for the year ended 30 June 1997 and amortised $41 million for the year ended 30 June 1998.

(b) Investments

Equity Securities (excluding Satellite Consortia Investments and Associates)

In accordance with Statement of Financial Accounting Standards No.115 (SFAS 115) "Accounting for Certain Investments in Debt and Equity Securities", the Telstra Group classifies certain debt and equity securities into either held-to-maturity or available-for-sale based on the Telstra Group's purpose for holding the securities. Securities that are held to maturity are written down to fair value, through the profit and loss account, when the decline in fair value is other than temporary. Securities that are classified as available for sale are to be carried at fair value with changes in fair value, other than a temporary reduction, being taken to a separate component of shareholders' equity until realised. Realised gains and losses measured against cost are included in the profit and loss account.

There is no requirement under AGAAP for an increase in the fair value of an equity security to be recorded in the financial statements. A permanent diminution in the value of an equity security is taken to the profit and loss account. An adjustment has been made in the reconciliation of AGAAP to US GAAP to revalue equity securities classified as available for sale to fair market value in accordance with SFAS 115.

Shares in Associates

US GAAP requires companies to account for investments in associates using the equity method of accounting. Prior to 1 July 1997, the Telstra Group accounted for its investments in associates using the cost basis. The effect of this departure in the years ending 30 June 1997 and prior years was not considered significant and therefore no differences have been included in the reconciliation of US GAAP for these years. From 1 July 1997, the Telstra Group adopted the equity method of accounting (refer Note 1.9(b)) which is similar to US GAAP requirements. Therefore, for the year ended 30 June 1998 there are no significant differences between AGAAP and US GAAP for accounting for investments in associates.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

(b) Investments (Continued)

Satellite Consortia Investments

The Telstra Group's participation in the INTELSAT and INMARSAT satellite consortia are treated as investments. The investment holdings are in US dollars and the balance sheet valuations are based on the Telstra Group's share at balance date and are translated to Australian currency at exchange rates in effect at that date. Up to 30 June 1996, any increments/ decrements in the value of the investments were transferred to a satellite consortia revaluation reserve. This method of accounting for changes in the fair value of satellite consortia investments represented a departure from US GAAP as investments are required to be carried at cost. The effect of this adjustment is disclosed in the reconciliation of shareholders' equity to US GAAP, through to 30 June 1996. In the year ended 30 June 1997, the reserve has been transferred to retained earnings as the reserve has been realised, thus there is no adjustment required for US GAAP.

(c) Dividend Payable Recognition

Under AGAAP, dividends declared after balance date and prior to the approval of the financial statements are accrued for in those financial statements. Under US GAAP provisions for dividends are only recognised as liabilities if the dividends are formally declared prior to balance date. The effect of this adjustment is disclosed in the reconciliation of shareholders' equity to US GAAP. The dividends per share for US GAAP that would be disclosed for the years ending 30 June 1998, 1997 and 1996 would be 11.1, 33.5 and 9.5 cents per share respectively.

(d) Retirement Benefits

The Telstra Group's periodic pension cost in relation to defined benefit plans included in these financial statements is based on the contributions payable to the retirement plans for the year, at rates determined by the actuary of the defined benefit plans. For a description of the Telstra Group's superannuation plans refer to Note 21. For the purposes of US GAAP disclosures, the CSS is a multiple employer plan within the context of Statement of Financial Accounting Standard No.87 (SFAS 87) "Employers' Accounting for Pensions".

In relation to the defined benefit schemes in which the Telstra Group participates where in the past there has been a shortfall in the net market value of the scheme assets when compared to members' vested entitlements, the Telstra Group has provided for the present value of any shortfall, to the extent that it has a present obligation.

For US GAAP, pension costs for defined benefit superannuation plans are actuarially computed using the projected unit credit method and include current service cost, interest cost, return on plan assets and amortisation of transition asset. Unrecorded gains and losses exceeding ten per cent of the greater of the projected benefit obligation or the market value of the plan assets are amortised over the average expected service period of active employees expected to receive benefits under the plan.

SFAS 87 was adopted by the Telstra Group on 1 July 1992 as it was not feasible to adopt SFAS 87 from the effective date of the Standard, being 1 July 1989. The transition asset is being amortised from the date of adoption over 11 years and $331 million of amortisation was recorded directly to shareholders' equity on 1 July 1992.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

(d) Retirement Benefits (Continued)

The effect of the adjustment of SFAS 87 to retirement benefit expense has been disclosed in the reconciliation of net income and shareholders' equity to US GAAP. If the Telstra Group had reported its net periodic pension cost and the funded status of the defined benefit superannuation plans in accordance with the accounting principles and actuarial assumptions generally accepted in the United States, the disclosures required would have been as follows:

	Telstra Group Year Ended 30 June			
	1998 $m	**1998 US $m**	1997 $m	1996 $m
Net periodic pension cost				
The components of net periodic pension cost for Telstra Group's defined benefit superannuation plans are as follows:				
Service cost on benefits earned	**430**	**267**	376	305
Interest cost on projected benefit obligation	**728**	**452**	747	696
Actual return on assets	**(1,206)**	**(749)**	(1,493)	(1,204)
Deferral of net asset loss	**79**	**49**	478	281
Amortisation of transition asset	**(97)**	**(60)**	(101)	(101)
Curtailment and settlement loss	**10**	**6**	414	-
Net periodic pension cost	**(56)**	**(35)**	421	(23)
The major assumptions used in accounting for the Telstra Group's defined benefit superannuation plans at 30 June and for the years then ended are:				
Discount rate	**6.00%**	**6.00%**	7.00%	8.00%
Rate of increase on compensation levels	**4.00%**	**4.00%**	4.50%	4.50%
Expected long-term rate of return on assets	**8.50%**	**8.50%**	8.50%	8.50%
Funded status of plans				
The funded status of the defined benefit superannuation plans is as follows:				
Accumulated benefit obligation				
Vested	**9,264**	**5,751**	7,354	6,418
Non vested	**-**	**-**	-	-
	9,264	**5,751**	7,354	6,418
Value of projected compensation increase	**2,785**	**1,729**	3,583	2,727
Projected benefit obligation	**12,049**	**7,480**	10,937	9,145
Fair value of plan assets (i)	**14,031**	**8,710**	13,867	12,221
Excess of assets over projected benefit obligation	**1,982**	**1,230**	2,930	3,076
Unrecognised net transition asset	**(553)**	**(343)**	(679)	(806)
Unrecognised net actuarial loss/(gain)	**878**	**545**	(298)	(236)
Prepaid pension cost	**2,307**	**1,432**	1,953	2,034

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

(d) Retirement Benefits (Continued)

(i) The difference between the fair market value of scheme assets for AGAAP and US GAAP is primarily attributable to the value of the additional contributions payable by the Telstra Group to the TSS which are not considered to be a scheme asset for the purposes of SFAS 87 of $785 million, $810 million and $833 million at 30 June 1998, 1997 and 1996 respectively.

There has been no significant settlement or curtailment of the Telstra Group's defined benefit superannuation schemes through to 30 June 1996. In conjunction with the redundancy and restructuring charge to the profit and loss account in the year ended 30 June 1997, the Telstra Group recorded an estimated liability of $365 million for curtailment losses and $49 million for settlement losses under the provision of Statement of Financial Accounting Standard No.88 (SFAS 88) "Employers Accounting for Settlement and Curtailments of Defined Benefit Pension Plans and for Termination Benefits". For the year ended 30 June 1998 curtailment gains of $12 million and settlement losses of $22 million have been recorded as part of the Telstra Group's ongoing redundancy and restructuring plan. The losses are expected to impact the Telstra Group's defined benefit pension plans for the period to 30 June 2001.

(e) Software Developed for Internal Use

Prior to 1 July 1996, the Telstra Group capitalised network management software which is included in patents, trademarks and licences. In order to further align its accounting policies with common practice in the telecommunications industry, the Telstra Group changed its accounting policy during the year ended 30 June 1997 and applied this policy retrospectively from 1 July 1996. From 1 July 1996, the Telstra Group has capitalised costs (including interest) associated with software developed for internal use in addition to network management software. The costs included direct labour (both internal and external) and other directly associated costs.

The policy prior to 1 July 1996 was not in accordance with US GAAP. The Telstra Group has capitalised, in the reconciliation of net income and shareholders' equity to US GAAP, $1,116 million and amortised $513 million for the years up to 30 June 1995, and capitalised $254 million and amortised $219 million for the year ended 30 June 1996, amortised $217 million for the year ended 30 June 1997, and amortised $181 million for the year ended 30 June 1998.

(f) Income Tax

Under AGAAP deferred tax assets and liabilities are provided for timing differences using the liability method of tax effect accounting. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Under US GAAP deferred tax assets and liabilities are provided for all temporary differences between the accounting and tax bases of assets and liabilities that will reverse during future taxable periods, including tax losses. Deferred tax assets are reduced by a valuation allowance if, in the opinion of management it is more likely than not that, some portion, or all, of the deferred tax asset will not be realised. Deferred taxes are also provided for the income tax effects of differences between US GAAP and AGAAP.

AGAAP requires the effect of a change in the income tax rate to be brought to account in the calculation of deferred tax balances when the change has been announced by the Treasurer of the Commonwealth. US GAAP requires the tax rate change to be recognised in the year of enactment. The effect of the income tax rate change from 33 per cent to 36 per cent, that was announced in the year ended 30 June 1995 but enacted subsequent to that balance date has been disclosed in the reconciliation of net income to US GAAP.

For AGAAP the classification of deferred tax balances between current and non current is based on when the temporary difference is expected to reverse. For US GAAP the classification between current and non current is based on the balance sheet classification of the underlying asset or liability. Where there is no underlying asset or liability the classification is based on when the temporary difference is expected to reverse. The effect of this has been disclosed in the balance sheet prepared in accordance with US GAAP.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

(f) Income Tax (Continued)

	Telstra Group As At 30 June			
	1998 $m	**1998 US $m**	1997 $m	1996 $m
Deferred tax assets				
Property, plant and equipment	**-**	**-**	-	56
Foreign exchange translation, hedge and other finance costs	**17**	**11**	32	39
Employee entitlements	**296**	**184**	625	431
Income received in advance	**-**	**-**	39	119
Inventory valuation	**22**	**14**	41	62
Provisions	**634**	**394**	522	174
Tax losses	**181**	**112**	11	31
Other	**75**	**47**	119	64
Total deferred tax assets	**1,225**	**762**	1,389	976
Valuation allowance	**(48)**	**(30)**	(8)	(22)
Deferred tax assets after valuation allowance	**1,177**	**732**	1,381	954
Deferred tax liabilities				
Property, plant and equipment	**785**	**487**	385	-
Foreign exchange translation, hedge and other finance costs	**36**	**22**	59	45
Prepaid pension cost	**830**	**515**	703	732
Capitalised software	**316**	**196**	231	230
Prepayments	**35**	**22**	38	30
Finance leases	**10**	**6**	55	44
Other	**19**	**12**	41	80
Deferred tax liabilities	**2,031**	**1,260**	1,512	1,161
Net deferred tax liability under US GAAP	**(854)**	**(528)**	(131)	(207)
Represented by:				
Net deferred tax asset under AGAAP	**785**	**488**	1,482	1,171
US GAAP/AGAAP differences	**(1,639)**	**(1,016)**	(1,613)	(1,378)
Net deferred tax liability under US GAAP	**(854)**	**(528)**	(131)	(207)
The components of income tax expense for US GAAP are:				
Current tax expense	**1,058**	**657**	1,056	1,032
Deferred tax expense	**549**	**341**	(291)	358
Effect of enacted tax rate change	**-**	**-**	-	(28)
Under provision in prior year	**(113)**	**(71)**	(66)	(87)
Income tax expense for US GAAP	**1,494**	**927**	699	1,275

During the year ended 30 June 1997, the Telstra Group recorded a cumulative adjustment to income tax expense of $216 million (refer Note 3(c)) for prior years depreciation on previously devalued assets. The depreciation adjustment has been appropriately treated in all applicable years for US GAAP.

The adjustment included in the reconciliation of net income to US GAAP for the year ended 30 June 1996 was $87 million. The adjustments included in the reconciliation of shareholders' equity to US GAAP were $Nil and $216 million for the years ended 30 June 1997 and 1996 respectively.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

(g) Lease Incentives

Prior to 6 July 1995, lump sum payments received in relation to major lease contracts were credited to the profit and loss account in the year in which they were receivable. US GAAP requires lease incentives to be recognised on a straight line basis over the term of the new lease. The effect of this departure is immaterial and no adjustment has been made in the reconciliation to US GAAP. Since 6 July 1995, lease incentives are deferred and recognised on a straight line basis over the term of the lease in accordance with AGAAP.

(h) Minority Interests (Outside Equity Interests per AGAAP)

Under US GAAP, minority interests are not included in shareholders' equity. The effect of this adjustment has been disclosed in the reconciliation of shareholders' equity to US GAAP. For the purposes of reconciling changes in minority interests, as at 30 June 1995, the balance of minority interests was $29 million. During the year ended 30 June 1996, there was a decrease of $5 million relating to minority capital, reserves and retained profits (other than minority's interest in operating loss after income tax benefit) and a decrease of $3 million relating to minority's interest in operating loss after income tax benefit. The balance of total minority interests as at 30 June 1996 was $21 million. Apart from a minority's interest in operating profits or losses after income tax expense/benefit, movements in minority interest balances from year to year result from changes to minority share capital, minority reserves and minority retained profits due to changes to ownership interests in controlled entities, the issue of equity by controlled entities and the receipt of dividends by minority interests.

(i) Financial Instruments

US GAAP does not permit deferral of gains and losses on forward foreign exchange contracts intended to hedge anticipated future transactions. The effect of this departure is considered immaterial and no adjustment has been made in the reconciliation to US GAAP.

(j) Employee Entitlements

The Telstra Group employee entitlement provisions include a liability for long service leave. The assumptions used to calculate this liability are consistent with those used for SFAS 87.

(k) Share Split

On 6 August 1997 a share split was approved so that all ordinary shares of the Telstra Entity on issue at this date with a par value of $1.00 each, were divided into two ordinary shares with a par value of $0.50 each. This resulted in the authorised share capital of the Telstra Entity changing from 20,000,000,000 shares with a par value of $1.00 each to 40,000,000,000 shares with a par value of $0.50 each. The number of issued and paid up ordinary shares changed from 6,433,300,100 ordinary shares with a par value of $1.00 each to 12,866,600,200 ordinary shares with a par value of $0.50 each.

The number of shares in accordance with US GAAP as restated for the share split would be 12,866,600,200 at 30 June 1997 and 1996. The share data for US GAAP for the years ending 30 June 1997 and 1996 have been restated to reflect the share split. As the share split occurred in the year ended 30 June 1998, no restatement was necessary for this year.

(l) Direct Cost of Sales

Included in direct cost of sales for AGAAP are dealer commissions and bonuses as they are directly related to revenue recognised as a result of the sale of the Telstra Group's products.

For US GAAP, dealer commissions and bonuses are not considered to be direct costs of sales, and therefore, in the profit and loss account measured and classified in accordance with US GAAP, dealer commissions and bonuses of $283 million, $251 million and $173 million for the years ended 30 June 1998, 1997 and 1996 respectively, have been reclassified from direct cost of sales to other operating expenses.

(m) Employee Compensation Expense

During the year ended 30 June 1998 eligible employees were entitled to participate in the Telstra Employee Share Ownership Plan (TESOP) (refer Note 17). The Telstra Entity provided eligible employees with a non-recourse loan (interest free) to enable the purchase of a maximum of 2,000 shares. For every four shares purchased under the interest free loan offer, the eligible employee would receive one extra share free, up to a maximum of 500 extra shares. The employee share offer was a one-time offer in conjunction with the one-third privatisation of the Telstra Entity and does not represent an ongoing share purchase plan.

AGAAP does not require the recognition of compensation expense in the profit and loss account in relation to employee share schemes. US GAAP requires that shares issued in conjunction with non-recourse loans be accounted for as options. Compensation expense for US GAAP includes the excess of the fair value of the stock options over the exercise price at the date of grant.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

(m) Employee Compensation Expense (Continued)

The compensation expense is recorded in the balance sheet under share capital as additional paid in capital. In addition, for US GAAP the outstanding balance of the loans provided to the employees is required to be deducted from shareholders' equity (share capital) rather than classified as an asset.

The Telstra Group has adopted the accounting principles of Statement of Financial Accounting Standard No.123 (SFAS 123) "Accounting for Stock Based Compensation" in determination of employee compensation expense. The Telstra Entity granted 137,473,875 options in conjunction with the one-third privatisation on 17 November 1998, 502,000 options were exercised to 30 June 1998 resulting in 136,971,875 options outstanding at 30 June 1998. All options vested immediately upon grant and will expire at the earlier of repayment of the loan balance or employment termination. These options are dilutive for earnings per share calculations (refer to Earnings Per Share calculations below).

The binomial option valuation model was used to estimate the fair value of the options at the date of grant, utilising the following weighted average assumptions: risk-free interest rate of 5.8 per cent; dividends yield of nil per cent as dividends are reinvested to reduce the price of the option; expected stock market price volatility factor of 30 per cent; and a weighted average expected life of options of 7 years. The weighted average price of the option at 30 June 1998 was A$4.88.

There is no income tax effect on the compensation expense for US GAAP as it is a permanent difference (ie. not deductible to the Telstra Entity).

Operating Profit Reconciliation

The following is a reconciliation of the significant adjustments necessary to reconcile net income in accordance with US GAAP to the amounts determined under AGAAP, for the years ended 30 June 1998, 1997 and 1996.

	Telstra Group			
	Year Ended 30 June			
	1998 $m	**1998 US $m**	1997 $m	1996 $m
Net income as reported in the Telstra Group profit and loss account according to AGAAP.	**3,004**	**1,865**	1,617	2,305
Adjustments required to accord with US GAAP:				
- Property, plant and equipment (a).	**(260)**	**(161)**	52	161
- Retirement benefit expense (d)	**354**	**220**	(81)	343
- Capitalisation of software (e)	**(181)**	**(112)**	(217)	35
- Employee compensation expense (m)	**(217)**	**(136)**	-	-
- Income tax expense (f)	**(26)**	**(16)**	(235)	(130)
Net income according to US GAAP	**2,674**	**1,660**	1,136	2,714

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

Operating Profit Reconciliation (Continued)

	Telstra Group Year Ended 30 June			
	1998 $m	**1998 US $m**	1997 $m	1996 $m
Profit and loss account information measured and classified in accordance with US GAAP is as follows:				
Operating revenue	**16,819**	**10,441**	15,436	14,716
Operating expenses				
Labour	**3,882**	**2,410**	4,802	3,409
Direct cost of sales	**2,299**	**1,427**	1,782	1,575
Depreciation and amortisation	**2,763**	**1,715**	2,895	2,545
Other operating expenses	**3,247**	**2,016**	4,041	3,072
Total Operating Expenses	**12,191**	**7,568**	13,520	10,601
Operating income	**4,628**	**2,873**	1,916	4,115
Interest expense, net	**(585)**	**(363)**	(333)	(357)
Dividend income	**20**	**12**	38	33
Other income	**101**	**63**	206	195
Net income before income tax expense and minority interests	**4,164**	**2,585**	1,827	3,986
Income tax expense	**1,494**	**927**	699	1,275
Net income before minority interests	**2,670**	**1,658**	1,128	2,711
Minority interests in operating income	**4**	**2**	8	3
Net income	**2,674**	**1,660**	1,136	2,714
Presenting information in accordance with US GAAP involves reclassifying the presentation adopted for AGAAP. The reconciliation of net income, other income and interest expense net for AGAAP to US GAAP is provided below:				
Operating revenue per AGAAP	**17,302**	**10,741**	15,983	15,239
Less:				
Dividend income	**20**	**12**	38	33
Interest income	**49**	**30**	85	105
Proceeds on sale of property, plant and equipment and patents, trademarks and licences	**266**	**165**	176	73
Proceeds on sale of investments	**-**	**-**	26	126
Other revenue	**148**	**92**	222	186
Operating revenue per US GAAP	**16,819**	**10,442**	15,436	14,716
Interest expense, net per AGAAP				
Interest expense	**(717)**	**(445)**	(524)	(533)
Interest revenue	**49**	**30**	85	105
Interest capitalised	**83**	**52**	106	71
Net interest expense per US GAAP	**(585)**	**(363)**	(333)	(357)
Other income				
Other revenue per AGAAP	**148**	**92**	222	186
Net profit/(loss) on sale of:				
- property, plant and equipment and patents, trademarks and licences	**(47)**	**(29)**	(39)	(43)
- investments	**-**	**-**	23	52
Other income per US GAAP	**101**	**63**	206	195

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

	Telstra Group Year Ended 30 June			
	1998 $m	**1998 US $m**	1997 $m	1996 $m
Earnings Per Share				
Net income according to US GAAP	**2,674**	**1,660**	1,136	2,714
	¢	**US ¢**	¢	¢
Basic earnings per share according to US GAAP (cents)	**20.9**	**13.0**	8.8	21.1
Diluted earnings per share according to US GAAP (cents)	**20.8**	**12.9**	8.8	21.1
	Number (in millions)			
Weighted average number of ordinary shares and common share equivalents for basic calculations	**12,781**	**12,781**	12,867	12,867
Assumed weighted average number of employee share options exercised at grant date.	**47**	**47**	-	-
Weighted average number of potential ordinary shares and common share equivalents for diluted calculations	**12,828**	**12,828**	12,867	12,867

Under AGAAP, earnings per share is calculated by dividing operating profit after income tax expense attributable to the Telstra Entity shareholders by the weighted average number of shares and share equivalents outstanding during the year on a basic and fully diluted basis. Earnings per share computations are calculated on the same basis for AGAAP and US GAAP for the years ended 30 June 1997 and 1996. The earnings per share calculation for the year ended 30 June 1998 is affected by the issue of the employee stock options referred to in (m) above. The stock options are dilutive to earnings per share.

The $3,000 million paid as a special dividend on 30 June 1997 required the Telstra Entity to replenish working capital by incurring additional debt. Had this debt been outstanding from the beginning of the year, interest expense would have been $250 million higher (income tax benefit of $90 million) (unaudited), and net income after income tax expense would have been $160 million lower (unaudited) as a result of additional interest expense, and earnings per share would have been 1.2 cents lower (unaudited).

The abnormal reduction in depreciation expense of $205 million (income tax expense of $74 million) for the year ended 30 June 1996 disclosed in the profit and loss account and detailed in Note 3(b) for AGAAP would be reported as a change in accounting estimates and disclosed as an unusual item forming part of income from continuing operations in accordance with US GAAP. The change in estimate effect on earnings per share was an increase of 1.0 cents in the year ended 30 June 1996.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

The following is a reconciliation of the significant adjustments necessary to reconcile shareholders' equity in accordance with US GAAP to the amounts determined under AGAAP as at 30 June 1998, 1997 and 1996.

	Telstra Group As At 30 June			
	1998 $m	**1998 US $m**	1997 $m	1996 $m
Shareholders' equity as reported in the Telstra Group Balance Sheet under AGAAP	**11,079**	**6,879**	9,938	12,668
Cumulative adjustments required to accord with US GAAP				
- Property, plant and equipment (a)	**1,251**	**777**	1,495	1,198
- Satellite consortia reserve (b)	**-**	**-**	-	(21)
- Listed investments (b)	**4**	**2**	-	-
- Dividend payable (c)	**901**	**559**	521	682
- Retirement benefits (d)	**3,092**	**1,920**	2,763	2,867
- Capitalisation of software (e)	**240**	**149**	421	638
- Employee share loans (m)	**(206)**	**(128)**	-	-
- Income tax (f)	**(1,639)**	**(1,017)**	(1,613)	(1,378)
- Minority interests (h)	**(46)**	**(29)**	(52)	(21)
Shareholders' equity according to US GAAP	**14,676**	**9,112**	13,473	16,633
Balance sheet information measured and classified in accordance with US GAAP is as follows:				
Current assets				
Cash	**953**	**592**	742	1,219
Marketable securities	**-**	**-**	95	95
Accounts receivable, net	**3,132**	**1,944**	3,291	2,895
Inventories	**243**	**151**	237	368
Future income tax benefits	**589**	**367**	723	428
Other assets	**136**	**84**	192	156
Total current assets	**5,053**	**3,138**	5,280	5,161
Non current assets				
Receivables	**81**	**50**	108	89
Investments	**232**	**144**	213	157
Inventories	**27**	**17**	36	40
Property, plant and equipment	**36,733**	**22,804**	35,108	32,329
Accumulated depreciation	**(15,726)**	**(9,763)**	(14,670)	(13,161)
Intangible assets, net	**2,803**	**1,740**	2,177	2,140
Other assets	**665**	**413**	713	704
Total non current assets	**24,815**	**15,405**	23,685	22,298
Total assets	**29,868**	**18,543**	28,965	27,459

(Continued over page)

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

	Telstra Group As At 30 June			
	1998 $m	**1998 US $m**	1997 $m	1996 $m
Balance sheet information measured and classified in accordance with US GAAP is as follows: (Continued)				
Current liabilities				
Accounts payable and accrued expenses	**2,364**	**1,468**	2,544	2,020
Short term debt	**2,508**	**1,557**	171	581
Long term debt due within one year	**427**	**265**	1,389	212
Provisions	**1,559**	**968**	1,797	1,519
Revenue received in advance	**666**	**413**	721	662
Total current liabilities	**7,524**	**4,671**	6,622	4,994
Non current liabilities				
Accounts payable	**36**	**22**	21	20
Long term debt	**4,787**	**2,972**	6,421	4,350
Provisions	**1,356**	**842**	1,522	806
Provisions for deferred income tax	**1,443**	**895**	854	635
Total non current liabilities	**7,622**	**4,731**	8,818	5,811
Total liabilities	**15,146**	**9,402**	15,440	10,805
Minority interests	**46**	**29**	52	21
Shareholders' equity				
Issued ordinary share capital	**6,433**	**3,994**	6,433	6,433
Share loan to employees (m)	**(206)**	**(128)**	-	-
Additional paid in capital (m)	**217**	**136**	-	-
Total share capital	**6,444**	**4,002**	6,433	6,433
Reserves	**(32)**	**(20)**	4	(6)
Retained earnings	**8,264**	**5,130**	7,036	10,206
Total shareholders' equity	**14,676**	**9,112**	13,473	16,633
Total liabilities and shareholders' equity	**29,868**	**18,543**	28,965	27,459

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Other disclosures

SFAS 115 requires accounting for debt and equity securities based upon the Telstra Group's intent to hold or sell the securities. As at 30 June 1998 and 1997, all of the Telstra Group's marketable securities and equity securities were classified as available-for-sale or held-to-maturity. The disclosures required by SFAS 115 are as follows:

	Telstra Group As At 30 June	
	1998 $m	1997 $m
Securities held-to-maturity		
The following is a summary of the held-to-maturity debt securities:		
Marketable securities included in cash:		
Bank deposits	**-**	45
Bank bills and promissory notes	**-**	-
	-	45
Marketable securities maturing in less than one year:		
Bank bills and promissory notes	**-**	32
Foreign exchange deposits (i)	**19**	-
	19	32
Marketable securities maturing in more than one year:		
Bank bills and promissory notes	**-**	10
Foreign exchange deposits (i)	**71**	98
	71	108

(i) The foreign exchange deposits are directly related to the Telstra Group's finance lease liabilities and cannot be used by the Telstra Group other than for settlement of these finance leases.

Securities available-for-sale

The following is a summary of the debt and equity securities available-for-sale:

	Telstra Group As At 30 June 1998				
	Principal $m	Accrued Interest $m	Amortised Cost $m	Fair Value $m	Unrealised Gain / (Loss) $m
Marketable securities included in cash:					
Bank deposits	**-**	**-**	**-**	**-**	**-**
Bank bills and promissory notes	**799**	**1**	**800**	**800**	**-**
	799	**1**	**800**	**800**	**-**
Marketable securities maturing within one year:					
Bank bills and promissory notes	**-**	**-**	**-**	**-**	**-**
Equity securities:					
Listed investments	**2**	**-**	**2**	**6**	**4**

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Securities available-for-sale (Continued)

	Telstra Group As At 30 June 1997				
	Principal $m	Accrued Interest $m	Amortised Cost $m	Fair Value $m	Unrealised Gain / (Loss) $m
Marketable securities included in cash:					
Bank deposits	125	-	125	125	-
Bank bills and promissory notes	418	2	420	420	-
	543	2	545	545	-
Marketable securities maturing within one year:					
Bank bills and promissory notes	63	1	64	64	-
Equity securities:					
Listed investments	5	-	5	5	-

Redundancy and restructuring disclosures

The disclosures required by EITF 94-3 in relation to the redundancy and restructuring provision raised by the Telstra Group are as follows:

In the year ended 30 June 1997, the Telstra Group approved a plan to reduce the number of employees by approximately 25,500 to approximately 51,000 employees by 30 June 2000. The Telstra Group has (in June 1998) approved a three year plan to 30 June 2001 which included an additional reduction of approximately 2,000 employees by way of redundancy. The Telstra Group is effecting the reduction in employees through a combination of natural attrition and outsourcing (approximately 6,700 employees) and voluntary redundancy offers and involuntary terminations (approximately 20,800 employees). Reductions are expected to occur primarily in sales and service areas, communication assets, broadband rollout construction areas and field operations and maintenance staff.

The total cost of the redundancy program is estimated to be $1,329 million (1997: $1,126 million) which includes severance and award payments of $1,043 million (1997: $840 million), career transition and other employee benefit costs of $286 million (1997: $286 million) (career transition costs include payments to employees who are in the outplacement process and amounts paid to third parties in relation to the outplacement program), of which $203 million was charged to the profit and loss in the year ended 30 June 1998 and $1,126 million in the year ended 30 June 1997. The additional 2,000 redundancies to 30 June 2001 are anticipated to cost $115 million in severance and award payments and $39 million in career and transition costs.

The impact of these redundancies on SFAS 87 calculation has been included in Note 32(d) Retirement Benefits.

During the year ended 30 June 1998, 7,715 employees (1997: 5,515) have accepted the offer for redundancy or have been made involuntarily redundant, this was in excess of the amount expected of 6,919 due to a reassessment of the initiatives being used to reduce the staffing levels. The Telstra Group has made severance payments in the year ended 30 June 1998 of $386 million (1997: $293 million) and career transition and other employee cost payments of $140 million (1997: $46 million), which have been charged against the provision for redundancy and restructuring.

In the years ended 30 June 1999, 2000 and 2001, the remaining staff redundancies are expected to be 4,796 employees, 2,103 employees and 694 employees, with severance payments expected to be approximately $225 million, $106 million and $33 million and payments for career transition and other employee costs expected to be $75 million, $20 million and $4 million respectively.

The severance payments are included in current and non current employee entitlements. The payments for career transition and other employee costs are included in other provisions current and non current.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Recently issued US Accounting Standards

In June 1997, the US Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No.130 (SFAS 130), "Reporting Comprehensive Income", which is effective for financial statements issued for fiscal years beginning after 15 December 1997. SFAS 130 requires that changes in certain items, including foreign currency translation adjustments, be reported in a statement of comprehensive income that is displayed in equal prominence with the other financial statements. SFAS 130 does not specify the format of the statement of comprehensive income, but it does require that an amount representing total comprehensive income be reported in that statement for all periods for which net income is presented. The Telstra Group does not believe that adoption of SFAS 130 will have a material effect on the Telstra Group's financial statements.

Also in June 1997, the FASB issued Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures about Segments of an Enterprise and Related Information", which is effective for financial statements issued for fiscal years beginning after 15 December 1997. SFAS 131 establishes standards for the way public companies report information about segments of their business in annual financial statements. SFAS 131 also requires entity-wide disclosures about the products and services an entity provides, its major customers and the countries in which it holds material amounts of assets and reports material amounts of revenue. The standard requires public companies to restate comparative information for earlier years in the initial year of application and to report selected segment information in their interim reports issued to shareholders. SFAS 131 need not be applied to interim financial statements in the initial year of its application. The Telstra Group has not determined the potential effect of this standard on the Telstra Group's financial statements.

In February 1998, the FASB issued Statement of Financial Accounting Standards No.132 (SFAS 132) "Employers' Disclosures about Pension and other Post Retirement Benefit Disclosures" which is effective for fiscal years beginning after 15 December 1997. SFAS 132 revises employers' disclosures about pensions and other post-retirement plans. In the initial year of application comparatives for the prior year are required to be restated. The Telstra Group has not yet determined the potential effect of this standard on the Telstra Group's financial statements.

In June 1998, the FASB issued Statement of Financial Accounting Standards No.133 (SFAS 133) "Accounting for Derivative Instruments and Hedging Activities" which is effective for financial statements issued for fiscal years beginning after 15 June 1999. SFAS 133 establishes accounting and reporting standards for derivative financial instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS 133 broadens the definition of a derivative instrument and significantly modifies the accounting treatment for certain types of derivatives. In the initial year of application comparative information for earlier years is to be restated. The Telstra Group has not yet determined the potential effect of this standard on the Telstra Group's financial statements.

Statement by Directors

In accordance with a resolution of the Directors of Telstra Corporation Limited (the Telstra Entity), in the opinion of the Directors:

a) the Profit and Loss Account for the year ended 30 June 1998 and the Balance Sheet as at 30 June 1998 of Telstra Corporation Limited are drawn up so as to give a true and fair view of the profit of the Company for the financial year and the state of affairs of the Company as at the end of the financial year;

b) at the date of this statement, there are reasonable grounds to believe that the Telstra Entity will be able to pay its debts as and when they fall due; and

c) at the date of this statement, there are reasonable grounds to believe that the companies identified in Note 22 as parties to a deed of cross guarantee will be able as an economic entity to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee described in Note 22. The provisions of the deed of cross guarantee are substantially in the same terms as the form of deed annexed to the ASIC Class Order 95/1530 dated 10 November 1995 (as amended). The deed of cross guarantee has been entered into by the parties to take advantage of relief from accounting requirements available through the Class Order 95/1530 (as amended). At the date of this statement the companies identified in Note 22 are within the classes of companies affected by this Class Order; and

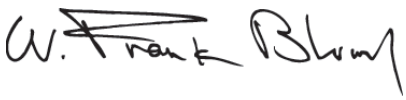
d) the consolidated financial statements of the Telstra Group have been made out in accordance with Divisions 4A and 4B of Part 3.6 of the Corporations Law and give a true and fair view of the matters with which they deal.

The Directors have elected to adopt the proposed revised Accounting Standard AASB 1016: 'Accounting for Investments in Associates' for the year ended 30 June 1998 (in accordance with Subsection 285(3) of the Corporations Law), as allowed pursuant to ASIC Class Order 97/0798 dated 5 June 1997.

The financial statements have been made out in accordance with Applicable Accounting Standards and Urgent Issues Group Consensus Views.

For and on behalf of the Board

David M. Hoare
Director



W. Frank Blount
Director

Date: 26 August 1998

Independent Audit Report to the Members of Telstra Corporation Limited

This report is included herein solely for the purpose of incorporation in Telstra Corporation Limited's Annual Report 1998 as filed with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Scope

I have audited the financial statements of Telstra Corporation Limited (the Telstra Entity) for the financial year ended 30 June 1998 as set out on pages 70 to 149. The financial statements consist of the accounts of the Telstra Entity and the consolidated accounts comprising the Telstra Entity and the entities it controlled at the end of or during the financial year (the Telstra Group). The Telstra Entity Directors are responsible for the financial statements. I have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Telstra Entity.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards (which are substantially the same as auditing standards generally accepted in the United States of America), to provide reasonable assurance whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Law, so as to present a view which is consistent with my understanding of the Telstra Entity's and the Telstra Group's state of affairs, the results of their operations and their cash flows.

I have not acted as auditor of the controlled entities identified in Note 22 to the financial statements. I have, however, received sufficient information and explanations concerning those controlled entities to enable me to form an opinion on the consolidated accounts.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In my opinion, the financial statements of Telstra Corporation Limited are properly drawn up:

(a) so as to give a true and fair view of:

  (i) the state of affairs as at 30 June 1998 and 1997, and the results and cash flows for the financial years in the three year period ended on 30 June 1998 of the Telstra Entity and the Telstra Group; and

  (ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;

(b) in accordance with the provisions of the Corporations Law; and

(c) in accordance with applicable accounting standards and other mandatory professional reporting requirements.

Accounting principles generally accepted in Australia vary in certain respects from accounting principles generally accepted in the United States of America. An explanation of the major differences between the sets of accounting principles is presented in Note 32 to the financial statements. The application of the United States of America accounting principles would have affected the determination of consolidated net income for each of the three years ended 30 June 1998 and the determination of consolidated shareholder's equity to the extent summarised in Note 32 to the financial statements.

PJ Barrett
Auditor-General

Date: 26 August 1998
Melbourne, Australia

Report of Independent Accountants to the Shareholders and Board of Directors of Telstra Corporation Limited

This report is included herein solely for the purpose of incorporation in Telstra Corporation Limited's Annual Report on Form 20-F as required by the United States Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder.

We have audited the accompanying consolidated balance sheets of Telstra Corporation Limited and its subsidiaries as of 30 June 1998 and 1997 and the related consolidated statements of profit and loss and retained profits and of cash flows for each of the three years in the period ended 30 June 1998, all expressed in Australian dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Australia and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of Telstra Corporation Limited and its subsidiaries at 30 June 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended 30 June 1998, in conformity with accounting principles generally accepted in Australia.

Accounting principles generally accepted in Australia vary in certain significant respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of consolidated net income expressed in Australian dollars for each of the three years ended 30 June 1998, and the determination of consolidated shareholders' equity, also expressed in Australian dollars, at 30 June 1998, 1997 and 1996 to the extent summarised in Note 32 to the consolidated financial statements.

PricewaterhouseCoopers

Date: 26 August 1998
Melbourne, Australia

Occupational Health and Safety

Occupational Health and Safety (Commonwealth Employees) Act 1991

This report is provided in accordance with Section 74 of the Occupational Health and Safety (Commonwealth Employment) Act 1991 (OHS Act).

Together with other Licensed Authorities under the Safety, Rehabilitation and Compensation Act 1988 (SRC Act), Telstra has initiated proposals for the rationalisation and simplification of excessive and ineffective regulation of its activities under the Occupational Health and Safety Act and the SRC Act. It is Telstra policy to promote a healthy workplace and to create and maintain a safe working environment, so that the human and material resources of the Company are effectively applied, with minimal loss, towards the achievement of our corporate goals.

As required by the OHS Act, training courses for Health and Safety representatives and for supervisors and managers, were conducted throughout the year. These courses are accredited by Comcare.

The number of Committees, Designated Work Groups and Health and Safety representatives in Telstra during the year ended 30 June 1998 was:

Number of Health & Safety Committees	320
Number of Designated Work Groups	741
Number of Health & Safety Representatives	548
Number of Health & Safety Representatives' deputies	316

Numerous activities and measures were implemented during the year to ensure the health, safety and welfare of employees and contractors. Primarily, the Company began implementation of the Telstra Care health and safety management programme, designed to achieve a significant improvement in Telstra's health and safety performance. A particular focus of this programme is leadership in safety, management accountability, visible reporting of outcomes and regular audit against standards.

Operation of the Telstra Driver Safety Awareness programme continued, maintaining its high profile to reduce motor vehicle accidents. After accounting for a reduction in vehicle fleet size, accidents reduced by 18 per cent.

Accident reporting is being streamlined to improve the accuracy of management reporting. On-line accident reporting has now been implemented.

Two education programmes on plant and confined spaces have been developed in response to new regulations. These were in addition to continuing other hazard based injury prevention programmes such as on manual handling, chemicals, dangerous goods and noise.

The following statistics of accidents and dangerous occurrences and of notices were recorded for 1997/98.

Incidents

Fatality	Serious Personal Injury	Prescribed Incapacity	Dangerous Occurrence
1	154	368	468

Notices

Provisional Improvement Notices (Section 29)	9
Directions not to Disturb Workplace (Section 45)	0
Prohibition Notices Issued by Investigators (Section 46)	0
Improvement Notices Issued (Section 47)	3

Safety Rehabilitation and Compensation Act 1988

Last year's report served notice of Telstra's successful application, as a self insurer, to the Safety, Rehabilitation and Compensation Commission (SRC) for a licence to contract out the administration of its workers' compensation claims to the private sector.

Since 1 July 1997, the processing of all new and existing claims has been successfully transferred from Telstra to GIO Australia Ltd (GIO) with existing levels of customer service and claims management practices maintained and in some areas improved. For example, in the first 12 months of GIO's Telstra operations, GIO has determined more than 80 per cent of claims within 10 days, to be one of the few bodies to meet the regulatory standard.

GIO also satisfied audits by Telstra of all State based operations and by the SRC Commission's Licensing Group in December in GIO's NSW State Operations.

The compensation claim documentation and process has been streamlined to improve compliance with reporting time regulatory standards. Telstra also met compliance standards in a self audit of rehabilitation operations conducted on behalf of the SRC Commission.

Telstra has commenced a series of continuous improvement initiatives to speed up and increase the effectiveness of injured employees' return to work. This work is targeted at a simpler process, clearer accountabilities and better support to managers.

Freedom of Information

Freedom of Information Act 1982

The Freedom of Information Act 1982 gives a right of access, subject to exemptions and exceptions, to information held in documentary form by the Telstra Entity.

This statement is made in accordance with Section 8 of the Freedom of Information Act.

Functions

The particulars and functions of the Telstra Entity are set out in detail in this Annual Report. From time to time the Telstra Entity may make decisions regarding the supply of telecommunications services and matters incidental, ancillary or complementary to the supply of telecommunications services that may affect members of the public.

Organisation

Particulars of Telstra's organisation can be viewed in Item 1.

Categories of Documents

Documents are maintained under the following general categories:

- tariffs and charges;
- customer services and products;
- network planning;
- installation and performance;
- legislative and regulatory contracts;
- tenders;
- agreements;
- financial management;
- administrative; and
- documents available to the public free of charge, including the whole or part of, or a summary of, the material terms and conditions of Telstra's Standard Form of Agreement with customers insofar as it relates to a customer's commercial relationship with Telstra, A Guide to Telstra's Services, product and service brochures and Telstra's Annual Report.

Access to certain classes of documents is available to the public via Telstra's Internet site: http//www.telstra.com.au

Consultative Arrangements

Telstra's Consumer Consultative Councils and the Telstra Small Enterprise Consultative Council provide formal links between Telstra and consumer groups representing residential and small business customers.

Consultative arrangements also exist with a wide range of groups including: the Australian Communications Industry Forum; the Telecommunications Access Forum; the Australian Telecommunications Industry Association (telecommunications industry); the Australian Information Industry Association (computer industry); the Australian Telecommunications Users Group (business and general); the Australian Subscription TV & Radio Association (Pay TV and narrowcast radio); the Federation of Australian Radio Broadcasters (commercial radio); and with a number of user groups in relation to specific products.

Freedom of Information Requests

Statistics

During the year ended 30 June 1998, Telstra received 87 requests under the Freedom of Information Act. In responding to these requests and the ten requests already on hand, 14 requests were granted full access, 32 requests were granted part access, 39 requests were refused and one application was withdrawn. At 30 June 1998 there were 11 requests requiring a decision.

There were nine applications received for internal review. In responding to these and the two applications already on hand, two applications resulted in a decision being made to provide greater access and five of the applications resulted in a decision to affirm the original decision on access. At 30 June 1997 there were four applications requiring a decision.

There was one appeal made to the Administrative Appeals Tribunal against decisions made on internal review, together with the four appeals carried over from the previous year. Two appeals resulted in greater access being granted, one appeal was withdrawn and there remain two appeals to be heard.

There were two requests for amendment of personal records. Both these requests resulted in refusal.

The processing costs were in the order of A$114,000. An amount of A$1,320 was recovered in respect of fees levied under the Freedom of Information Act.

General

Initial enquiries concerning requests for access to documents or amendment of personal records pursuant to the Freedom of Information Act 1982, may be directed to Telstra's Freedom of Information Unit, Locked Bag 5691, Melbourne 8100, or to Telstra offices at 242 Exhibition St, Melbourne. Telephone enquiries should be directed to the Manager, Freedom of Information on (03) 9632 3371.

Personnel Records

A person who is or was an employee of Telstra may only apply for access to personnel records under the Freedom of Information Act where a request has first been made for access under the internal Telstra process and the applicant is either dissatisfied with the result or has not been notified of a decision within 30 days.

Glossary

AAPT: AAP Telecommunications Pty Limited

ACA: Australian Communications Authority

ACAF: Australian Communications Access Forum

ACCC: Australian Competition and Consumer Commission

Access Line: a fixed or wireless local access connection between a customer's premises and a Carrier's local switch

ACIF: Australian Communications Industry Forum

ADSL (Asymmetric Digital Subscriber Line): a compression technology that allows combinations of services including voice, data and one-way, full motion video to be delivered over existing copper feeder, distribution and subscriber lines

AMH: Australis Media Holdings Ltd

AMPS (Advanced Mobile Phone System): a mobile telephone system predominantly based on analogue transmission

(ATM) Asynchronous Transfer Mode: a high bandwidth, low delay technology for transmitting voice, data and video signals

AUSTEL: Australian Telecommunications Authority

Australis: Australis Media Limited

Bandwidth: the capacity of a communication link

Broadband Network: a network to support pay television and on-line services

BTA: British Telecom Australasia Pty Limited

CSP (Carriage Service Provider): a person that supplies a telecommunications service to the public using Carrier network infrastructure

Carrier: a licensed owner of certain specified transmission infrastructure that is used to supply telecommunications carriage services to the public; any person holding a Carrier licence

Churn: the rate at which subscribers to a service disconnect from the service. Churn is usually expressed as total disconnects for a period divided by the average number of customers for that period

Communications Minister: the Commonwealth Minister for Communications, the Information Economy and the Arts

Commonwealth: Commonwealth of Australia

Company: Telstra Corporation Limited and its controlled entities as a whole

Compression: a technology which makes better use of the bandwidth required to send information

CSG: Customer Service Guarantee

Data Mode of Operation Study: a Telstra internal project examining the requirements arising from the market for the Internet and more general data needs, to determine the most appropriate network architecture to support this data paradigm

Declared Services: a particular telecommunications service, or other service that facilitates the supply of services, that is subject to the regulated access regime. The ACCC has the responsibility for determining declared services, based on public inquiries or the recommendation of the ACAF

DOCA: the Commonwealth Department of Communications and the Arts

eCommerce: eCommerce includes buying and selling electronically over a network

ETSI: European Telecommunications Standards Institute. A body which sets European standards for telecommunications services

Final Instalment: Final Instalment refers to the remaining amount due on the aggregate purchase price for the Shares with respect to that Share

Frame Relay: a packet switching technology for voice, data and video signals which uses packets of varying length, or frames. Frame relay can be used with any data protocol

FTA: Free-to-Air

Galaxy: Galaxy Network International Pty Ltd

Government: the Government of the Commonwealth of Australia

GSM (Global System for Mobile Communications): a mobile telephone system based on digital transmission

International Switched Transit: the process by which traffic from one country to a second country is switched via a third country

ISP (Internet Service Providers): An Internet Service Provider provides the link between an end user and the Internet, usually by means of a dial-up service. An ISP is also likely to provide help desk, web hosting and e-mail services to the end user. An ISP may connect to the Internet via their own backbone or via services acquired from an Internet Access Provider

Intranet: a private network which uses Internet software and standards

ISDN (Integrated Services Digital Network): a digital service providing switched and dedicated integrated access to voice, data and video

JORN: Jindalee Operational Radar Network

Glossary

LAN: local area network - a short distance data communications network used to link computers and other equipment

Local Exchange: provides the point of connection for access lines to the telecommunications network and switches originating and terminating traffic to these access lines (customers)

Networks and Systems Modernisation Programme: refers to the Future Mode of Operation (FMO) programme which incorporated the simplification and modernisation of the network including the digitisation of the PSTN switches and provision of SDH transmission systems. It also included the integration and modernisation of service activation and assurance systems to support front of house activities

Number Portability: the ability of end users to keep their telephone number when they change their telephone service provider

OTC: Overseas Telecommunications Commission

PBX (Private Branch Exchange): telephone switch on a customer's premises seen as terminal equipment on the public network

Preselection: the ability of a customer to choose a service provider. Pre-selection is on a "permanent" basis (when the customer selects a provider for all calls placed without an override code)

PSTN (Public Switched Telephone Network): Telstra's national fixed network delivering basic and enhanced telephone service

Reseller: non-Carrier providers of telecommunications services

Refile traffic: When international traffic between a source and a destination is routed via one or more intermediate locations

Telstra: Telstra Corporation Limited and its controlled entities as a whole

Telstra Entity: Telstra Corporation Limited

Telstra®: a registered Trade Mark of the Telstra Entity

Telstra Act: the Telstra Corporation Act 1991 (Cth)

Telstra Multimedia: Telstra Multimedia Pty Ltd, a wholly owned controlled entity of the Telstra Entity

SureLink™: Telstra's umbrella brand name for Electronic Commerce Services. SureLink™ incorporates a range of products that enable electronic trading of goods and services

TIO: Telecommunications Industry Ombudsman

Trustee: The Trustee refers to the Telstra Instalment Receipt Trustee under the Trust Deed, dated 28 September 1997 among the Commonwealth, the Trustee and the holders of IRs

TSLRIC: total service long run incremental cost

US GAAP: generally accepted accounting principles in the United States

USO (Universal Service Obligation): obligation imposed on Carriers to ensure that standard telecommunications services are reasonably available to all persons in the universal service area

WAN: wide area network

Wireless Local Loops: low power, multi-directional radio systems to supply access to customers

X.25: a protocol for a low speed packet switched data network

Five Year Financial Summary

Financial Summary for Fiscal Years Ending 30 June

		1998 A$m	1997 A$m	1996 A$m	1995 A$m	1994 A$m
Sales Revenue		**16,819**	15,436	14,716	13,613	12,788
Operating Revenue		**17,302**	15,983	15,239	14,081	13,363
EBITDA[1]	- before abnormals	**7,375**	6,597	6,021	5,576	5,744
	- after abnormals	**7,375**	4,793	6,226	5,008	5,330
EBIT[2]	- before abnormals	**5,053**	4,244	3,670	3,372	3,621
	- after abnormals	**5,053**	2,406	3,875	2,804	3,207
Profit before Tax	- before abnormals	**4,468**	3,805	3,242	2,973	2,942
	- after abnormals	**4,468**	2,073	3,447	2,405	2,528
Profit after Tax & Minorities	- before abnormals	**3,004**	2,568	2,174	2,003	1,977
	- after abnormals	**3,004**	1,617	2,305	1,753	1,699
Dividend		**1,802**	4,146	1,368	944	738
Total Assets		**26,470**	25,858	24,362	24,083	21,139
Gross Debt		**7,772**	7,981	5,143	5,856	5,733
Shareholders' Equity		**11,079**	9,938	12,668	11,727	10,755
Operating Cashflow		**5,635**	5,254	4,478	5,414	4,118
Cash used in Investing		**(3,609)**	(4,171)	(3,870)	(3,112)	(2,132)
Cash used in Financing		**(1,808)**	(1,572)	(1,659)	(340)	(3,121)
Net movement		**218**	(489)	(1,051)	1,962	(1,135)
Capital expenditure & investments		**3,973**	4,504	4,071	3,282	2,496
Financial Ratios		%	%	%	%	%
Return on Average Assets	- before abnormals	**20.1**	17.7	16.6	16.3	17.5
	- after abnormals	**20.1**	10.1	17.5	13.6	15.5
Return on Average Equity	- before abnormals	**28.7**	20.1	17.9	17.9	18.3
	- after abnormals	**28.7**	12.7	18.9	15.6	15.7
Interest Cover (times)	- before abnormals	**7.6**	9.7	8.6	8.4	5.3
	- after abnormals	**7.6**	5.5	9.0	7.0	4.7
Gross Debt to Capitalisation		**41.1**	44.5	28.9	33.3	34.8
Net Debt to Capitalisation		**36.8**	41.5	22.8	20.7	30.0

(1) *Operating profit before interest received/receivable, interest expense (borrowing costs), depreciation and amortisation and income tax expense. EBITDA before abnormals used as a measure of financial performance by excluding certain variables that affect operating profits but which may not directly relate to all financial aspects of the operations of the Company. EBITDA before abnormals is not a measure of operating income, operating performance or liquidity under Australian GAAP or US GAAP.*

(2) *EBITDA before abnormals less depreciation and amortisation.*